1985

THE MANITOBA BUDGET ADDRESS

Manitoba
Finance

85-4356/

1985

THE MANITOBA BUDGET ADDRESS

The Honourable Vic Schroeder

Minister of Finance

March 21, 1985

House Edition
Check Against Delivery

Produced by the Queen's Printer (M.G.E.A.)

Manitoba Youth Moving Ahead
International Youth Year 1985

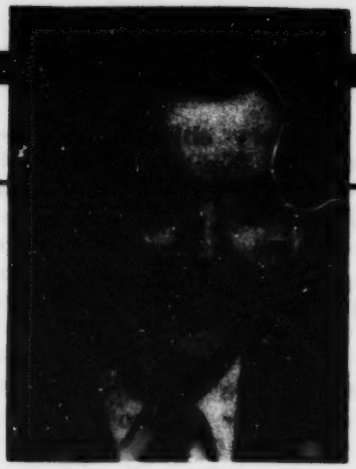
ISSN 0380-4488

1985 MANITOBA BUDGET ADDRESS

Table of Contents

INTRODUCTION	1
ECONOMIC SITUATION AND OUTLOOK	6
° NORTH AMERICA	6
° CANADA	6
° MANITOBA	7
° OUTLOOK	8
IMPORTANCE OF FAIR FEDERAL ACTION	10
° ECONOMIC AND REGIONAL DEVELOPMENT AGREEMENTS	10
° NOVEMBER 8TH CUTBACKS	11
° FEDERAL TRANSFERS	12
° TAX REFORM	13
° FAIR RESOLUTION	15
MAIN EXPENDITURE ESTIMATES - 1985/86	16
ECONOMIC GROWTH, INVESTMENT AND JOBS	18
° THE MANITOBA JOBS FUND	20
° AGRICULTURE	21
° HOUSING	23
° SUMMARY	24
PRESERVING PUBLIC SERVICES	25
° HEALTH CARE	26
° HUMAN RESOURCES	27
Education	27
Community Services, Economic and Employment Services	28
Day Care	28
° SUMMARY	29
° OTHER SPENDING	29
TAX CHANGES	31
BUDGETARY POSITION - SUMMARY	34
NON-BUDGETARY CAPITAL REQUIREMENTS	36
CONCLUSION	37

THE 1985 MANITOBA BUDGET ADDRESS



INTRODUCTION

Mr. Speaker:

Mr. Speaker, tonight I am proud to present our New Democratic Party Government's fourth Budget to the people of Manitoba.

Over the past several months, I have had the opportunity to discuss Manitoba's economic and fiscal circumstances with hundreds of Manitobans across the province. We have shared our hopes and aspirations and our concerns with each other as we worked together to define a vision for Manitoba, and chart a path to take us there. I hope that those ordinary Manitobans who gave so freely of their time and thoughts will recognize some of their own comments and suggestions in this Budget Address. They have played an important role in shaping our budget policies and ensuring those policies have broad support.

While there are many different opinions on specific situations and solutions, I am pleased to be able to inform you that Manitobans on the whole have confidence in their abilities to build a strong and vibrant economy, and are optimistic that by working together we can continue to build upon the successes of the last few years.

Working people have been telling this Government consistently since our election that saving and creating jobs must

be our primary objective. They have told this Government that they want to live and work with dignity and purpose. From the miner in Thompson to the farmer in Emerson, they share a common belief in their Province and their own role in developing it. From the homemaker in Winnipeg to the conservation officer in Dauphin, they share a desire to see an economic environment that will provide jobs for their children.

Our Government cares and has responded to their suggestions and concerns. We have made saving and creating jobs our number one commitment.

This Budget builds on that commitment, because this N.D.P. Government cares deeply for ordinary Manitobans.

That commitment goes beyond jobs alone. Manitobans want a safe working environment, an opportunity to meet the challenges of new technologies through training and education, an economy that brings out the best of Manitoba through public and private sector cooperation, a fair use of economic resources to ensure that our social services increase opportunities for our disadvantaged and provide support for those in need. They want a Province in which we can respect and learn from each other. Those are the hopes that I have been talking with Manitobans about over the past number of months.

We have come through some troubled times. I am proud to have been part of the cooperative effort, among all Manitobans, that helped our province weather the worst recession in more than four decades remarkably well.

These have been difficult years throughout Canada.

But, Manitobans have reason to take pride in our comparative economic performance. Together we have built a strong foundation for our future and our people have been coming home.

Between 1969 and 1977, Manitoba's population increased by more than 6,000 persons annually, surpassing the one million mark in 1973. Under the Conservatives, our population declined from 1,027,400 to 1,026,200. Since 1981, population rebounded by more than 10,000 persons annually, now totalling over 1,060,000.

Ordinary Manitobans know that our economic policies, and our Manitoba Jobs Fund, have helped put thousands of Manitoba men and women back to work. And many sons and daughters are coming home again to work.

They know the N.D.P. has always fought for important social programs -- like Medicare. They know the N.D.P. cares about young people and providing opportunities for their future.

They know we have maintained and enhanced our public services as part and parcel of responsible budgetary policy. In Manitoba, because we care about the interests of ordinary people, top quality health care and education have not fallen under the knife of blind ideological devotion to so-called "balanced" books.

In too many jurisdictions, we have seen that misguided Conservative philosophy in action, and its results -- growing unemployment lines, more poverty, more welfare, reduced levels of health, education and social services -- and, ironically larger budget deficits.

In Manitoba we have put ordinary people first and the results are clear.

More Manitobans are working. We consistently have the lowest or second-lowest unemployment rate in Canada as compared to being third or fourth under the former administration.

Our small businesses and entrepreneurial community are showing their faith in Manitoba. We have the best economic performance in western Canada.

The business community across the country is looking to Manitoba. According to Statistics Canada, we have the best investment outlook in Canada.

Together we are setting the stage for a great future for Manitoba. We are harnessing our resources, our talents and our ingenuity to shape a future in which every Manitoban can play a vital role.

In this Budget we are honouring our commitments to the working people of Manitoba. Tonight we will be reinforcing and strengthening policies and directions established in our first three Budgets.

- First, continuing the priority commitment to jobs and employment creation for Manitobans. We believe the tragedy of unemployment, both the economic and human costs, must be met head-on with forceful, rational and compassionate policies and programs.

- Second, devoting additional resources to protect all Manitobans from any erosion in vital health, education and social services.

- Third, reinforcing our Government's commitment to improving our province's long-term economic potential.

Mr. Speaker, the important measures we undertake tonight and in the weeks to come will not magically eradicate unemployment in our province. Each and every one of us knows that there are no easy solutions.

We are under no illusion that a provincial government can guarantee success solely through its own efforts. But we also know that we must all work together to do what we can. Sadly, Manitobans know too well from firsthand experience the terrible legacy of another provincial government which turned its back on the economic and social problems facing our communities.

They know what happens when a government is always ready with an excuse for not acting or for undercutting important public services. They have seen what happens when government becomes so preoccupied with short-term fiscal balance sheets that it ignores pressing human, social and economic needs.

They remember an administration:

- which did nothing to protect ordinary Manitobans, farmers, working people, or small businesses from devastating interest rates;

- which didn't act when plants closed;

- which didn't act on bankruptcies; and

- which didn't act on the population exodus.

Ordinary Manitobans want a government which puts people -- their problems, their concerns and their aspirations, first.

They want a government prepared to fight for and improve important social and economic programming.

They want a government that cares about young people, a government that fights hard to create new jobs for men and women.

They want a government prepared to act decisively in times of difficulty, not a government which pleads inability to act when farmers, working people and small businesses are beset by crippling high interest rates.

They want a government that governs with compassion and common sense.

On November 17, 1981, Manitobans elected such a government.

Three years after that election, Manitobans know they have a government which puts people first.

This Budget will show, once again, that this Government is prepared to listen and to lead.

We will maintain an active role in encouraging and coordinating the efforts needed to assure more jobs for more Manitobans, and to keep as many Manitobans as possible working.

And we intend to do it while preserving our important social services and maintaining a responsible financial position.

ECONOMIC SITUATION AND OUTLOOK

North America

The North American economy has now experienced more than two years of recovery and expansion.

Economic growth in the United States has exceeded most expectations and inflation remains moderate.

The economic renewal, however, has been accompanied by substantially higher government deficits -- despite massive cuts in social spending, including the virtual dismantling of many programs.

One of the "bottom lines" of such policies is the resulting economic inequality and stress on the American social fabric.

World leaders are concerned that the economic costs of the American approach are being forced on other nations through destructively high interest rates.

Canada

Canada also experienced strong expansion in the last two years. In 1984, real Gross National Product increased by 4.7%, the best improvement since 1976. Inflation continued to decline.

Canada benefitted significantly from the strength of overall growth in the United States. Exports rose nearly 20% in 1984 with automotive and petroleum products contributing strongly to the total.

Despite this progress, 1.5 million Canadian men and women remain unemployed. Final domestic demand remains 4.2% lower on a per capita basis than prior to the recession.

Consumers and businesses remain cautious in their spending plans. The Canadian expansion remains vulnerable to the pressures of high interest rates and to a weakening in export markets.

In addition, the gains that have been achieved remain unevenly distributed across the country, among industries, and among individual Canadians. A strong commitment to fair and balanced regional development policies in Canada is more important than ever.

Manitoba

Last year, I reported in my Budget Address, that Manitoba had weathered the recession relatively well and had been one of the first provinces to regain pre-recession employment levels. I am pleased to report that further progress has been achieved over the past year.

A detailed summary of recent developments in Manitoba is included in the Economic Review which accompanies this Budget.

Manitoba's record of success in rebuilding basic industries and laying the foundation for a strengthened economy in the future is evident by the economic expansion in virtually all major industrial sectors of our economy in 1984.

Manitoba's employment growth rate is more than triple the national, in comparison with pre-recession employment levels. In comparison, under the previous administration, employment growth in Manitoba was less than 60% of the national rate. Some 12,000 more Manitobans are now working than in mid-1981. Our province, with just over 4% of Canada's population, has accounted for over 13% of the new jobs. In contrast, in five provinces, there are fewer jobs than prior to the recession.

While housing markets remain depressed in other western provinces, residential construction in Manitoba continues to provide jobs and affordable homes at levels well above those of the early 1980's. In 1984, there were four times as many apartment unit starts in Manitoba as in Alberta -- and Alberta has no rent controls.

After a number of years when the investment climate was poor, and investment in Manitoba was well below the national standard, investors now share our confidence in the future of Manitoba.

Last year, even the Investment Dealers' Association of Canada concluded:

> "Investment prospects in the Province have never looked brighter."

Investment has been a key area of strength in our economy in the past two years. Investment means more jobs for Manitobans immediately, improved competitiveness for our province, more production, and more jobs in the future.

The Statistics Canada outlook for 1985 indicates a third year of strong investment performance -- the best performance among all provinces.

With the increase projected for 1985, the annual increase in investment in Manitoba since 1982, is expected to average 11.5%, close to three times the investment growth achieved from 1978 to 1981.

Public sector investment -- through the Manitoba Jobs Fund, in housing, in economic development, in social infrastructure, in jobs for our children's future -- has helped improve the private sector investment climate in Manitoba.

Private sector investment increased 9.8% in Manitoba last year, nearly three times the increase in Canada as a whole.

Outlook

In the year ahead, the pace of economic expansion in the North American economy is generally expected to moderate.

Unemployment is expected to remain painfully high.

Recent increases in interest rates add to our concern, although we are encouraged by the federal Finance Minister's predictions that Canadian interest rates will soon be down significantly from present levels.

The North American slowdown is expected to limit growth in markets for Manitoba's products. Overall, however, the provincial economy is expected to continue to expand and to generate further increases in employment, incomes and living standards.

The improved confidence Manitobans have in opportunities within the province is reflected in the continued strong expansion in investment intentions for 1985. This will raise the capacity of our economy to produce goods and services to improve our standard of living.

And, for the coming decade, Manitoba's prospects are even stronger.

Our Government's determination to build a strong and equitable base for future growth includes, among other elements, the development of strategic projects on terms favourable to Manitobans.

We have concentrated on proposals which will support long-term employment opportunities both in themselves, and through the incomes they generate, and their linkage with other sectors in our province.

We have taken time to consult with and ensure that Manitoba contractors and suppliers are in the best possible position to reap full benefit of such initiatives.

Nine months ago, our Government announced the conclusion of a $3.2 billion hydro export sales contract with Northern States Power Company of Minneapolis, Minnesota. As Members know, the National Energy Board approved this important sale earlier this week.

The building of the Limestone Generating Station will commence this year.

Limestone will be the largest single project in our province this decade. Its construction means jobs for thousands of Manitobans -- 17,000 person-years of direct and indirect employment -- along with significant opportunities for our business community.

Mr. Speaker, I am happy to report that new purchasing, employment and training policies are in place to ensure maximum participation in the benefits of the project for Manitoba men and women.

And, on top of these benefits, the N.S.P. sale is expected to generate $1.7 billion in profits to our province.

Mr. Speaker, negotiations of additional firm power sales are also under way. Conclusion of an additional large long-term sale could lead to further development of our northern hydro resources, and more jobs for Manitoba men and women, extending throughout the decade of the 1990's.

IMPORTANCE OF FAIR FEDERAL ACTION

Mr. Speaker, our Government will continue to stress cooperation and fairness in our dealings with the new federal government. We believe more can be achieved by cooperation than by confrontation. We also believe fair policies are the only sound foundation for sustained cooperation.

Manitobans recognize the importance of national policies. We share the hope that fair and supportive policies will be included in the federal Budget later this year.

Federal action to ensure fair and balanced economic and social development is vital to Canadians in every region.

And, at this stage in our development, it is critical to ordinary Manitobans.

For years, a succession of Manitoba governments have had to fight hard to try to ensure fair treatment for our people from the federal government.

Sometimes those efforts have been successful, but too often in the past they have not.

Now, we have a new federal government in Ottawa -- a federal government which has committed itself to giving the West a real voice in policy-making, a federal government which has committed itself to building on the strengths of Canada's diverse regions, and, at the recent First Ministers' Conference in Regina, a federal government which has committed itself to the goal of fair and balanced regional development.

Those are strong and welcome commitments -- and they are long overdue.

It is absolutely essential for the economic progress of Manitoba that this Legislature -- every Member, on both sides -- make certain that the new Prime Minister and his colleagues remember those commitments -- and live up to them.

Economic and Regional Development Agreements

We have been encouraged by the new federal government's expressions of support for the Economic and Regional Development Agreements which have now been signed with all ten provinces. Those agreements are designed to ensure greater flexibility and sensitivity to regional development concerns across a broad range of federal and provincial programs.

I am also pleased to note we are close to concluding a new Canada-Manitoba Tourism Development Agreement. We have assurances as well that the federal government will be in a position to sign a new Industrial Development Agreement in the reasonably near future.

These new Agreements will complement earlier agreed-to joint efforts of the federal and provincial governments in the areas of Mineral Development, Forest Renewal, Agriculture and Food Development, Transportation Development, Urban Bus Industrial Development, Development of the Port of Churchill, Communications and Cultural Industries Development, and Economic Planning. They mean jobs for ordinary Manitobans.

Members Opposite derided this Government's initiative in approaching the federal government with a National Economic Recovery package, sometimes referred to as "the Wish List," which is now coming true, meaning a stronger Manitoba, and a better future for our children.

November 8th Cutbacks

In other areas, Manitobans have serious concerns. For example, some of the November 8th federal spending cut proposals simply do not make sense. In addition, Manitobans will suffer from the disproportionately large share of the proposed cuts to be made in our province. The Manufacturing Technology Institute, research cutbacks at Churchill and Gimli and the VIA Rail Maintenance Centre are prime examples.

Our analysis suggests that if the federal government proceeds with the cuts as initially announced, some 6,000 jobs in Manitoba and over $400 million in investment could be lost.

Like working people throughout the province, we are waiting for some positive developments in this area. Clearly, such cuts are not an appropriate direction for a federal government concerned about jobs and regional development.

My Cabinet colleagues and I have raised these concerns with federal Ministers on several occasions. We have asked the federal government where they expect the replacement jobs to be created.

Discussions are continuing, and I am hopeful that we will be hearing some positive news soon.

Federal Transfers

Direct federal transfers are also important to Manitobans. For programs such as health and post-secondary education, for social assistance and other shared-cost programs, for joint economic initiatives, and for equalization, federal payments account for 36% of the Province's revenue, a substantial contribution. However, the federal share is down significantly from the 43% federal contribution of just six years ago.

Increasingly, as a result, it becomes more difficult for our Province to sustain needed initiatives both to foster job creation and economic renewal in Manitoba and to maintain needed public services.

We look forward to productive discussions with the new federal government on these long-term concerns which affect jobs, programs, services and taxes for all Manitobans.

Our Government is encouraged by the federal government's willingness to act on the immediate equalization problem -- the spectre of major unwarranted cuts in 1985/86 to four of the six recipient provinces. We appreciate the fact that the federal government will not seek to reduce its deficit by penalizing four of the six poorest provinces in the country, leaving the wealthiest untouched.

As Members know, both the Manitoba Government and the official Opposition agree that fair treatment means there should be an increase in federal equalization support in 1985/86 that is reflective of our Province's increasing need.

At this stage, however, we feel it is more prudent to proceed on the basis of an assumed freeze than to predicate our budgetary planning on completely fair treatment from the federal government -- that is, an actual increase in equalization. In other words, it is assumed that the federal government will not proceed with a planned $72 million cut in equalization support to Manitoba.

But there is also an important longer-term equalization problem.

The equalization formula unilaterally imposed by the previous federal government in 1982 replaced the all-province national average equalization standard with a lower five-province benchmark. As a result, in our view, the new formula is simply incapable of achieving its constitutional objective -- to ensure:

> "...that provincial governments have sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation."

As a further illustration of the basic problems with equalization, I would point out that the five-province average standard would provide Manitoba with $268 million less annually than the all-province national average fiscal capacity -- that is, the average revenues of all ten provinces at average tax rates, the standard that used to be used for equalization payments.

I am pleased to note, however, that the new federal government has agreed to a joint review of this concern beginning later this year. We will continue to fight for a fair deal for Manitoba.

Tax Reform

Federal leadership is also urgently required to restore fairness to our national income tax system.

It has been over 20 years since another Conservative Government, under the Right Hon. John George Diefenbaker, established the Royal Commission on Taxation chaired by Mr. Kenneth Carter.

The final report of the Carter Commission stated that:

> "The first and most essential purpose of taxation is to share the burden of the state fairly among all individuals and families. Unless the allocation of the burden is generally accepted as fair, the social and political fabric of a country is weakened and can be destroyed."

Manitobans have told me that they believe that statement was, and still is, a correct assessment of both the purpose of taxation, and the serious consequences of unfair taxation.

In 1972, some of the recommendations of the Carter Commission were incorporated into the income tax system. However, since that time, many new loopholes, incentives, and preferential provisions have been added. Numerous wealthy Canadians are able to avoid paying their fair share of income taxes. Some wealthy Canadians are able to avoid paying any taxes. It is no wonder that many Canadians believe the system to be unfair.

The federal Auditor General recently pegged the costs of the various preferential provisions to be as much as $50 billion annually in federal revenue. That is about 50¢ in tax benefits for each dollar in direct federal spending. And, unlike direct spending programs, tax expenditures are rarely subjected to meaningful review and scrutiny.

In raising the tax reform issue at the Regina First Ministers' Conference on the Economy last month, Premier Pawley noted:

> "While well-to-do Canadians and profitable corporations are avoiding taxes, leaving ordinary working women and men to pay the bills, the resulting deficits are being used as justification for attacks on public programs and services."

In our view, meaningful tax reform leading to a simpler and fairer tax system is urgently required. Only in this way can we finance the shift of such taxes as education taxes from property to a fairer base of ability to pay.

Mr. Speaker, recent major downward revisions in federal estimates of personal income tax revenue have added to

our concern. Since November, Ottawa has reduced its estimates of the yield of the personal income tax for 1984 by 5% across the country. Manitoba's share of the national reduction amounts to some $35 million.

At the same time, we are told the country's economic performance improved from the November federal estimate of 4.2% to 4.7%, according to the latest information from Statistics Canada.

There is a considerable degree of uncertainty on the question of the responsiveness of income tax revenue to growth in personal incomes and profits. This uncertainty is reflected in the tendency of senior governments in Canada to rely on other sources of revenue.

There is a pressing need for a thorough review of the performance of the income tax system -- both in terms of its fairness among taxpayers and its relation to our economy's structure and growth.

Fair Resolution

A fair resolution of all these concerns, federal spending proposals, transfer payments for important public services, and tax reform would be a major plus for Manitobans and all Canadians for many years to come.

Mr. Speaker, our Government was pleased to have the Opposition Conservatives, after some initial hesitation, recognize the importance of fair treatment for Manitoba on the equalization issue. I would like to take this opportunity to thank them publicly for that support.

During this Budget debate, I will be most interested in hearing where they stand on other important federal-provincial issues including federal transfers, the unfair share of the November 8th federal cuts on Manitoba, and tax reform.

MAIN EXPENDITURE ESTIMATES - 1985/86

Mr. Speaker, the Expenditure Estimates I am tabling tonight provide resources of over $3.6 billion to sustain economic development and job creation initiatives while protecting important health, education and social services for Manitobans.

Our Government has developed these Estimates after consultation and discussion with hundreds of ordinary Manitobans.

They know from experience that it is the New Democrats who care about the health and well-being of our people.

The measures we have taken to rebuild the health care system after the devastation it suffered in 1978/79 were welcomed by both the users and providers of health care.

Manitoba men and women have observed the trauma suffered by schools and students in other provinces. They don't want the same to happen to themselves and their sons and daughters. They welcomed our decision to increase support to schools, community colleges and universities.

Perhaps nowhere was consensus stronger than on employment policies. Manitobans have told us they appreciate our decisive action in meeting the crisis of unemployment with bold measures. The Jobs Fund -- the priority we attach to maintaining important public services for Manitobans along with the jobs required to provide those services -- and our concerted action to encourage and seize upon economic development opportunities -- all received strong endorsement.

The people of Manitoba sent us a message during those consultations. They told us the measures we have taken during the last three years were badly needed, most appropriate, just and fair. They told us they wanted to continue to work with us to maintain those efforts.

Some critics may say our unemployment rate is among the best in the country so the Jobs Fund should be eliminated. Others may say health spending should be cut or premiums or user charges imposed to reduce the deficit. And others may say that spending on education is too high.

Those who make such suggestions are not among unemployed Manitobans or their families and friends. They are

unlikely to be among Manitoba men and women or their families who may require ongoing medical care. And, they likely have already benefitted from our education system.

I can understand that it might appear, in the short term, to be in some people's interests to cast adrift those who require the collective protection of our society. But that is never in the interest of a caring, compassionate, and humane society.

Mr. Speaker, the Manitoba Jobs Fund will be retained.

This Budget maintains our Government's initiatives and programs -- with the enhancements of our previous Budgets.

It provides for steady growth and evolution. It enhances immediate and long-term prospects and opportunities for Manitobans. And it is fiscally prudent.

ECONOMIC GROWTH, INVESTMENT AND JOBS

The Estimates include measures to consolidate economic progress and to ensure that Manitobans are equipped to take maximum advantage of existing and emerging economic opportunities.

Mr. Speaker, those opportunities are the first payoffs from the joint efforts and initiatives which Manitobans have taken over the past three years.

We now have the opportunity to build upon a strengthened economic foundation which has been restored after the recession.

We now have the opportunity to secure maximum advantage for Manitobans from Limestone construction -- made possible in large part by the Minister of Energy and Mines' successful negotiations with Northern States Power.

Manitobans are pleased with the National Energy Board decision granting an export permit and with the supportive statements of federal Ministers.

We urge Manitobans to take the time to read this important decision which stated that:

> "The Board is satisfied that in the circumstances of this case the export price is the best price that could be negotiated by the Applicant in its particular United States market."

The Board confirmed the price charged would be greater than for domestic use of similar amounts.

> "...the Board is aware that the export price would be substantially greater than the rates paid by the Applicant's large industrial customers."

The Board, of course, does not have jurisdiction to determine the timing of construction of our dams. It can, however, comment on the proposal and its stated:

> "The Board's assessment of the export proposal has not, however, turned up anything to suggest that the utility's generation expansion decisions are wrong."

The Board went on to agree with Hydro's contention that a two-year advancement of Limestone would be more profitable for it than a one-year advancement and I quote:

> "...the Board has carefully examined the cases representing both the Sale Sequence and the [illegible] Only Sequence cases.
>
> "...for the Sale Sequence, from MH's perspective the excess of revenues over costs for the two-year advancement would be about $20 million more than for the one-year advancement. From the perspective of Canada as a whole, corresponding benefits would be in a similar range as those for the one-year advancement.
>
> "...while it is true that the cost-recovery period associated with the proposed export is a long one, the estimated revenues will substantially exceed the estimated costs over the period of the export."

The Board also agreed with Manitoba Hydro figures which prove Manitoba Hydro will receive a large net benefit.

> "The results of the Board's analysis for the Sale Sequence showed that MH could be expected to derive net revenues of about $385 million from the two-year advancement case."

Other experts have told us it's a good deal. All Manitobans know we must proceed with Limestone within two years even without the NSP sale. They also know, excepting for the Opposition, that the sale means much lower cost for power rates in the future than would be the case without the sale.

That is why we are proud of the work done by Hydro and our Minister.

We now have the opportunity to build with the federal government through the ERDA programs in critical sectors of our economy.

Clearly, we must continue to work together to build on our human resources and energies to achieve the full potential of our great province.

Investment will help provide a sound foundation for sustained economic development. Development programs will

support our entrepreneurs and business owners. The Manitoba Jobs Fund will continue to support the creation of jobs primarily in the private sector.

The Manitoba Jobs Fund

Mr. Speaker, our Government is pleased that with careful management and priorization of resources this year, we are again able to dedicate $210 million to spearhead our efforts at job creation and preservation.

The Manitoba Jobs Fund was initiated more than two years ago to meet the immediate crisis of recession and high unemployment.

Last year, along with improvements in our economy, Jobs Fund activity was refocussed to provide greater emphasis on longer-term development and permanent job creation.

In its first two years, Jobs Fund projects have provided some 436,000 workweeks for 35,000 Manitoba men and women -- that is 8,400 person-years of employment, Mr. Speaker.

The Jobs Fund has made a difference.

In 1985/86, the Manitoba Jobs Fund will continue to evolve.

The Manitoba Jobs Fund will continue its important contribution to Manitoba's housing and youth employment programs.

The Manitoba Jobs Fund, along with Departmental allocations and the provisions of the Canada-Manitoba Enabling Vote, will provide for Manitoba's contribution to the second year of economic development initiatives under the Economic and Regional Development Agreements, strengthening that economic base which is making Manitoba once again a place in which investors have confidence.

And, a major new challenge for the Jobs Fund in 1985/86 will be to assist Manitoba men and women to participate fully in the economic and employment opportunities available from the construction of the Limestone Generating Station.

Mr. Speaker, in 1985/86, our Government will allocate some $4.4 million through the Jobs Fund for employment and

training programs to assist Manitobans, and especially northerners and northern Natives, to prepare for the jobs which hydro development will create in our province.

The Manitoba Jobs Fund also will help retain jobs and benefits, associated with the construction, in Manitoba, by assisting local businesses to participate in bidding on supply contracts.

Agriculture

The farming community is a major cornerstone of the provincial economy. It is the economic base for most rural communities in Manitoba, for supply and service industries in our towns and cities, and for thousands of jobs including those in transportation services, food processing and farm implement manufacturing.

Despite the hard work by Manitoba farmers, and the improvement in production in 1984, we are facing serious difficulties in agriculture.

Continued weakness in international prices for farm products, and the impact of a number of years of high interest rates, and increased production costs threaten the homes and livelihood of a substantial number of our farm families.

Mr. Speaker, our Government fully recognizes and supports the importance of a stable and strong farm sector.

We also recognize that international and national policies have much to do with the current financial crisis in agriculture. But, we are determined to work with our agricultural community to meet these challenges.

We have initiated or strengthened programs to preserve family farms, to stabilize and enhance production and to alleviate the worst effects of the financial crisis.

- The emergency Interest Rate Relief Program has provided over $11 million to 1,250 farmers facing difficulty due to record high interest rates.

- The Manitoba Beef and Hog Stabilization Programs have provided approximately $44 million of assistance to over 6,000 producers in order to protect against wide fluctuation in prices.

- The Manitoba Agricultural Credit Corporation has made 1,300 loans to farmers totalling $77 million for the acquisition of livestock, machinery and land and for debt consolidation.

As well,

- The Guaranteed Operating Loan Program has assisted over 700 farmers with loans totalling $65 million.

- The Interest Rate Reduction Program has passed on the benefits of lower nominal interest rates by reducing loan payments for 640 clients by over $18 million.

These initiatives helped.

Last week, the Minister of Agriculture announced a reduction in the interest rate on all outstanding loans from the Manitoba Agricultural Credit Corporation in the current fiscal year. This measure will provide $6 million in benefits in addition to the Young Farmer Rebate Program. Farmers will receive cash rebates or reductions in debt obligations in time to assist in meeting Spring production costs.

Our Government recognizes that more is required.

Accordingly, I am pleased to announce tonight that in the 1985/86 fiscal year, the Manitoba Agricultural Credit Corporation will provide an additional $20 million in loans at 9 3/4% interest, that is, at a rate below current market rates. These loans will be part of a comprehensive refinancing program for farmers including younger producers and those in financial distress.

Mr. Speaker, the farm-cost squeeze has focussed attention on the short and medium-term financial problems facing the agricultural sector. However, our Government also shares a deep concern for the longer-term productivity of our most valuable natural resource -- the land.

The Estimates for the Department of Agriculture provide a 12% increase to $1.5 million for programs to enhance efficiency and for soil conservation and water management, under agreements with the federal government.

Mr. Speaker, earlier I mentioned the Manitoba Beef and Hog Stabilization Programs. The success of these Programs is reflected in the stabilization in beef cattle numbers and increases

in hog production, and in benefits to the communities that rely on a stable agricultural sector.

In 1985/86, our Government will provide a further $7.25 million of operating funds as our contribution to the Beef and Hog Stabilization Programs.

Mr. Speaker, this Budget provides $58.1 million in support of the farm community through the budgetary programs of the Department of Agriculture. In addition, $25 million is provided in non-budgetary capital authority for the Manitoba Beef Stabilization Fund and the Manitoba Agricultural Credit Corporation.

These actions speak far louder than words. They show that the N.D.P. cares about our family farms and that we are prepared to help. In turn, this means more jobs for working people.

Housing

The success of our housing initiatives is clearly evident in the resurgence of housing starts in the past two years.

That success has meant jobs and investment in our construction industry, increased business for our retail and wholesale trade sectors, and most important, more housing, affordable to more Manitobans. We believe it is important that good quality housing be brought within the reach of ordinary Manitobans.

This Budget provides $44 million through the Department of Housing for the continuation of our housing programs.

Particular emphasis will be placed on the public non-profit housing program designed to reduce lengthy waiting lists for low-income housing.

In addition, $111.6 million in non-budgetary capital authority will be provided for the programs of the Manitoba Housing and Renewal Corporation in 1985/86.

And the housing component in the Manitoba Jobs Fund will continue to emphasize the Rentalstart Program in response to low vacancy rates in the core area of Winnipeg and throughout the province.

Summary

In addition to the Jobs Fund, resources budgetted for economic development total some $501.4 million, or more than one-half billion dollars, this year. Some $922.4 million will be provided through the Jobs Fund and non-budgetary capital authority to provide the vitally necessary public investment component of economic development and growth.

PRESERVING PUBLIC SERVICES

The consistent record of this Administration in maintaining and enhancing public services will be continued through the provisions of these Expenditure Estimates.

A few months ago, my colleague, the Minister of Industry, Trade and Technology, spoke on the integral relationship between social and economic development. I will repeat some of his words here, because they belong in the record of this Assembly, and they belong in the Budget Statement of this Government.

He said:

"Social development and economic development must go hand in hand.

"Although it is certainly true that we cannot have social development without economic development, the converse is equally true. This point is ...absolutely fundamental to our whole approach.

"It is precisely this message that distinguishes us as Social Democrats from the many conservative-minded commentators and politicians around us. Their approach, their models, their philosophy suggests that by sacrificing progress on the social front, we will somehow advance on the economic front. They are wrong. In this, they are fundamentally wrong; perhaps even destructively wrong.

"Of course, what these conservatives fail to either explain or understand is why countries with a high commitment to social development such as Sweden, Norway, Austria, West Germany, and so forth, have enjoyed strong economic growth and low rates of unemployment. What is missed in conservative models and in the whole conservative approach is the simple point that people are more productive, more innovative, more committed to cooperative change, and generally more useful members of society when they are healthy, well-educated and secure.

"In the Government of Manitoba, we see the maintenance of quality <u>social</u> services as a vital part

of our economic policy. To the conservative mind, this appears to be a contradiction. To us, it is fundamental to the economic alternative we offer."

A brief review of some of the highlights of the important social services financed through this Budget should be of interest to all Honourable Members.

Health Care

Mr. Speaker, health care again commands the largest share of the Budget, over 31%, and the largest increase in dollar terms, up $54 million or 5%, to $1,136 million.

We have demonstrated that high quality health care for our citizens is very important to us. We are determined to protect vital health services from those who would prefer to erode them. In addition, through this Budget, we will provide:

- an increase in the Community Health Program to $42.8 million, reflecting our Government's commitment to alternative health care delivery systems which can be more effective and less costly than expensive traditional hospital and institutional care;

- increased emphasis on disease prevention;

- increased day eye surgery capacity;

- increased out-patient and not-for-admission surgery services in Brandon; and

- expansion of chemotherapy services in rural hospitals.

These increases have two common thrusts, better health care for ordinary Manitobans, and, over the long term, lower costs.

Unlike some other provinces, we will ensure universal access with no medical premiums or hospital user fees. Our approach to controlling health costs operates within an overall balance which provides a fair deal for Manitoba doctors, hospital and other health care workers and a fair deal for Manitoba taxpayers.

Human Resources

Investment in human resources -- ranging from basic education, to economic security, to child and family services -- remains a fundamental commitment of our New Democratic Government. Money is limited this year. But we remain determined to sustain investment in our most precious resource, the men and women and young people of Manitoba.

Education

Within education we have structured school operating grants to provide provincial funding increases in excess of the provincial average of 2% to those school divisions with low property tax assessments per pupil. In addition, measures have been introduced to ensure that no school division, in 1985, receives less funding than in 1984.

For the third year in a row there will be no increase in the education support levy.

In keeping with our Government's commitment to quality education for all Manitobans, operating grants to school divisions have increased by $99 million or 36% since 1981. This increase of 36% compares very favourably to inflation, including the forecast for 1985, of about 25% over the same four-year period. This has allowed school divisions to maintain high quality educational programs.

Grants to universities have been increased by $3.3 million or 2.1% to $156.3 million this year, over one-third above the 1981/82 level.

The Estimates also include support for important new training facilities and programs including:

- the Manufacturing Technology Training Centre at Red River Community College;
- new training and education programs for unemployed youth, adults and seniors, women, Natives and handicapped people;
- cooperative programs with business, labour and industry to train and retrain in the workplace.

Community Services, Economic and Employment Services

The social costs of the national tragedy of unemployment remain high.

Our Government recognizes the immense benefits which arise when employment opportunities are increased. Greater human dignity is the most important benefit. But, there is also increased production. Social costs are reduced. And tax revenue is increased.

This Budget provides an increase of $22.8 million or 7% in resources for Community Services and Employment Services and Economic Security, bringing the total to almost $350 million.

These sums will preserve and enhance programs which our Government, in close partnership with the community, provides to many vulnerable Manitobans.

Included in the totals are:

- An additional $3.4 million to assist physically and mentally disabled people through program initiatives such as "Welcome Home." This will increase the range of alternatives available to our people by providing supportive community environments. At the same time, we will be gradually enhancing the quality of services available for those who remain in institutions.

- $44.8 million for child and family support to sustain healthy family functioning and to protect children. These monies provide for the creation of new community-based Children's Aid Societies in Winnipeg, and include amounts dedicated to preventative services and to culturally-appropriate services for Natives.

- Increased emphasis on measures and services to help the many children and spouses who have, for too long, silently endured family violence.

- A $13.7 million increase to sustain income support and assistance programs, including social allowances, the Manitoba Supplement for Pensioners and the Child Related Income Support Program.

Day Care

The provision of affordable day care for working parents and quality care for children has been a cherished

priority of this Government. This Budget will continue to support the expansion and improvement of day care. The $1.9 million increase in grants and subsidies to $18.4 million this year, more than doubles the 1981/82 total. Manitoba now provides the highest per capita support to day care of any province.

Obviously, a national commitment to day care with adequate federal cost-sharing, as my colleague, the Minister of Community Services has proposed, would help ensure that parents, and particularly, single parents, have fair and equal access to job opportunities and no longer face extra obstacles because they cannot be assured of quality care for their children.

We will not wait for federal action. Despite the obvious resource constraints we face, I am pleased that another 450 day care spaces will be phased-in under the provisions of these Estimates.

Summary

These important public services -- health and human resources -- account for three-fifths of our Budget this year.

We sustained these services during the recession and into this period of renewal. The cooperation of men and women working in the delivery agencies -- hospitals, universities, school divisions, and social agencies -- has been crucial to increasing efficiency and effectiveness of these important public services. We are responding, where possible, to their suggestions and identified needs in order to further enhance preventative or more cost-effective delivery.

Other Spending

Mr. Speaker, I would like to comment briefly on four other items in the Estimates.

- Requirements for the Department of Government Services are up $41.9 million reflecting, in large part, rental payments to Manitoba Properties Incorporated. These account for $36 million of the increase. However, as Members are aware, the Manitoba Properties arrangement secures an annual benefit of about $8 million for Manitobans.

- Requirements for the Civil Service Commission have increased by $4.6 million. Of the increase, almost $2 million represents pensions for retired public servants and their families. A $1.2 million increase in Workers Compensation costs and over $600,000 in increased Canada Pension Plan costs are also significant factors.

- Statutory public debt costs amount to $263 million this year, up less than 4% from last year's Budget. These costs represent 7.3% of spending, the same as last year. In 1984/85, Manitoba's budgetted debt charges were fourth lowest among the provinces on a per capita basis.

- Direct assistance to local governments and taxpayers amounts to an estimated $317.8 million in 1985/86 up about 5.2% from last year's Budget. The largest portion of the increase is $12.1 million in assistance directly to taxpayers through the tax credit programs.

TAX CHANGES

Mr. Speaker, equity and fairness in taxation is a vital concern to all Manitobans. Fair taxation, and the knowledge that everyone is paying their fair share is essential to rebuilding an atmosphere of trust and cooperation throughout our country. Each taxpayer's contribution to funding public services should reflect his or her ability to pay. In our view, ability to pay is best measured by a comprehensive definition of income and wealth.

Unfortunately, the national income tax system is seriously flawed. It is not producing revenue in line with economic renewal. As a result important programs and services are coming under increasing financial pressure and governments are relying on other taxes. Income tax reform is urgent and must become a priority on the national policy agenda.

Meanwhile, choices must be made to secure the resources necessary to fulfill important public responsibilities at the provincial level.

We have kept increases to the minimum required, and we have protected the competitive position of Manitoba businesses.

I am pleased to announce that:

- there will be no increase in sales taxes;
- there will be no increase in personal income taxes;
- there will be no general increases in business taxes.

Increases will be confined to three areas:

1. Fuel Taxes: The general gasoline tax rate will be increased by 0.5¢/litre to 8.0¢ effective April 1, 1985. At the new rate, no province levying fuel taxes will have a lower general gasoline tax than Manitoba.

   Mr. Speaker, our Government is concerned that the current pricing structure of gasoline in Canada, with leaded fuel selling at a lower price than unleaded fuel, provides an incentive to use the higher-pollutant fuel. This is inappropriate and inconsistent with our desire for a cleaner environment today and in the future.

Accordingly, we are proposing a special surcharge on leaded fuel of 0.9¢/litre which should roughly halve the price differential between leaded and unleaded gasoline.

The motive fuel tax rate will also be increased by 0.6¢ per litre to 9.2¢/litre effective April 1. No province east of Manitoba will have a lower rate. This is a modest increase which effectively preserves our trucking industry's competitive position.

Competition Assistance Grants near the Saskatchewan border will be adjusted to reflect these changes.

As a further measure to equalize tax costs, the special diesel fuel rate for rail use will be set at the same rate as road use motive fuel effective April 1. At the new rate, rail use in Manitoba will be taxed 4.4¢/litre lower than in Saskatchewan.

Coloured fuel for farm use will continue to be fully exempt from provincial fuel taxation.

Mr. Speaker, Members will be pleased to know that the general rates proposed in this Budget will remain lower than the ad valorem rate system legislated by the Conservatives in 1980. Based on a price survey conducted on March 8, Manitobans would be paying 8.6¢/litre in gasoline tax and 9.9¢ in diesel fuel tax had the Conservative approach been maintained.

Honourable Members may also be interested in noting that the Highways Department budget for 1985/86 exceeds the full revenue from these fuel taxes by $29 million.

2. Tobacco Taxes: Tobacco taxes will be increased by 0.5¢ per cigarette to 3.1¢ per cigarette effective midnight, April 28th.

3. Water Power Rental Rates will be increased from $3.25 to $4.75 per horsepower-year of generation, and capacity rates will be increased correspondingly. The last increase in water power rental rates was in 1980 at which time Manitoba's effective rate was higher than Ontario's indexed rates. With the increase, Manitoba's rates will be well under one-half of the rates now applicable in Ontario and British Columbia.

In total, the adjustments are expected to increase revenue by $38.1 million.

I would also like to take this opportunity to announce that the Manitoba Manufacturing Investment Tax Credit, which was scheduled to expire at the end of 1985, will be extended to December 31, 1986. This innovative measure, introduced last year, applies to investment in new buildings, machinery and equipment which are used in a manufacturing or processing business in Manitoba.

Further details on taxation measures are included in Appendix C.

BUDGETARY POSITION - SUMMARY

The Expenditure Estimates tabled with the Budget total $3,618.7 million -- $161.1 million or 4.7% more than last year's Estimates.

Our spending is under prudent control -- responding appropriately in overall terms to the economic renewal while preserving commitments to jobs for Manitoba men and women and maintaining services.

On the revenue side, there are some problems in federal transfers. And income taxes do not appear to be keeping pace with recovery. Again, this is a nationwide problem, common to all provinces and the federal government. Corporate income taxes have responded sluggishly to two years of strong growth in corporate profits. Increases in revenue from the personal income tax are also showing slower growth than incomes.

This is a matter of considerable concern both to the federal and provincial governments and is to be dealt with in depth in federal-provincial consultations in early summer. Our Province looks forward to those consultations with considerable interest.

Our own source revenue, taxes and fees over which we have direct control, are growing in line with the economic recovery. With the limited tax adjustments announced tonight, these are expected to grow by $129.1 million or 11.8%.

Federal source revenues are growing by $24.3 million or 1.3% so that, in total, revenue is estimated at $3,122.5 million, $153.5 million or 5.2% over last year.

This will result in a total budgetary requirement of $496.2 million, fairly close to last year's $488.7 million estimate and $82.7 million lower than the $578.9 million budgetted for 1983/84.

The net operating deficit at $192.6 million, is up from last year's $167.7 million but still far below the $294.8 million budgetted for 1983/84. However, it remains moderate in relation to overall spending. And, it would, of course, be smaller if income tax revenue were meeting rather than falling short of federal expectations. In fact, if income tax revenue in 1985/86 simply matched last year's Printed Estimate, provincial revenue would be $29.4 million higher, and the operating deficit would be lower than last year's.

I might add to put it into perspective, that the net operating deficit is projected at about 1.1% of Gross Provincial Product, down substantially from 1.4% in 1982/83. The total budgetary requirement has also declined significantly in relation to our economy from 3.1% of Gross Provincial Product in 1982/83 to a projected 2.8% budgetted for the coming year.

On that basis, we remain satisfied that both the operating deficit and the total budgetary requirement are fiscally responsible, prudent and appropriate in current circumstances.

NON-BUDGETARY CAPITAL REQUIREMENTS

Mr. Speaker, this Budget includes a capital authority requirement of $1 billion for construction of the Limestone Generating Station.

The $1 billion is necessary so that contracts can be concluded and work initiated quite soon. Approximately $140 million is expected to be spent in the 1985/86 fiscal year.

I should add that, as Members may be aware, we are also examining "project financing" for Limestone. Under this approach, financing for the project could proceed without Provincial guarantees.

In total, including Limestone, our Government plans a non-budgetary capital investment program of $839 million for 1985/86, approximately 26%, or $174 million greater than last year.

Apart from Limestone, the investment program will be financed with $140 million in internally-generated funds, $236 million in capital authority voted in previous years, and $323 million in new authority in this year's Loan Acts.

Total borrowing requirements for 1985/86 are now estimated at $1.45 billion, compared with $1.1 billion last year. The total includes budgetary requirements, non-budgetary requirements and refinancing of issues which mature during the year. The Canada Pension Plan, other off-market sources and Manitoba Properties Inc., are expected to provide $300 million with the remaining $1,150 million to be raised through public bond markets.

CONCLUSION

Earlier, I said that Manitoba men and women delivered a direct and clear message to our Government during the extensive consultations which led to this Budget. Our New Democratic Government listened and responded.

In line with that advice, this Budget builds on the successes of our first three Budgets.

- We have continued the attack on unemployment.
- We have rebuilt, preserved and protected vital public services.
- We have stressed the urgency of national tax reform -- to the maintenance of quality public services -- to restoring national tax fairness, and -- to increasing fiscal flexibility.
- We have maintained in Manitoba, the fairest and most equitable tax structure in Canada, a system with no regressive user charges or unfair health premiums.
- We have extended the innovative Manitoba Manufacturing Tax Credit.
- We have sustained the successful Manitoba Jobs Fund.
- We have demonstrated our commitment to maximize opportunities for Manitoba men and women, especially northerners and northern Natives, under Limestone.
- We have shown our confidence in the faith and vision and initiative of Manitoba men and women.
- We have proved over and over our commitment to cooperation, to helping, to working together.

In short, we have put people first. We have listened. That is why my colleagues and I take pride in this Budget.

SUPPLEMENTARY BUDGET MATERIAL

Contents

Appendix A: FINANCIAL STATISTICS

Appendix B: ECONOMIC REVIEW

Appendix C: TAXATION ADJUSTMENTS

Appendix D: THE CANADIAN ECONOMY AND FEDERAL-PROVINCIAL RELATIONS

Appendix E: BACKGROUND ON EQUALIZATION

Appendix A:

FINANCIAL STATISTICS

Appendix A:

FINANCIAL STATISTICS

Table of Contents

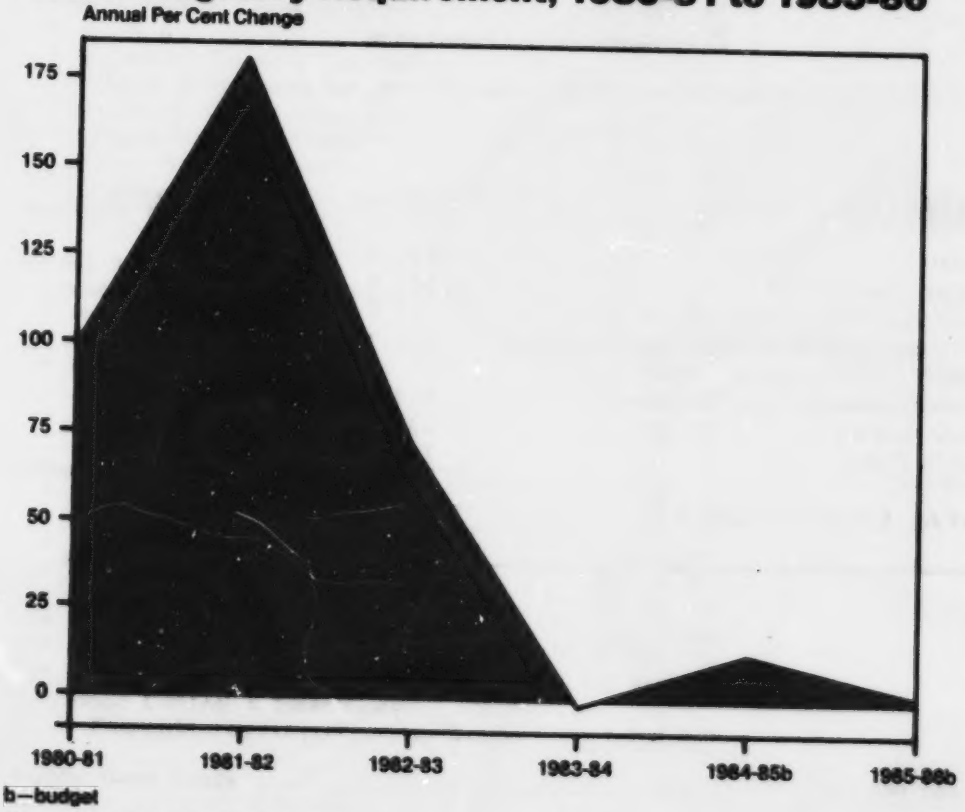
Summary of Budgetary Position	A 1
Total Budgetary Requirement, 1980-81 to 1985-86	A 1
Provincial Expenditure, 1985-86: Major Categories	A 2
1985-86 Expenditure Estimates	A 3
Expenditure Increases, Province of Manitoba 1981-82 to 1985-86	A 4
Child Day Care in Manitoba 1981-82 to 1985-86	A 5
Provincial Funding for Public Schools	A 6
Universities Grants Commission Funding	A 6
Provincial Health Care Expenditure	A 7
Direct Assistance to Local Governments and Taxpayers	A 7
Expenditure Per Capita, 1984-85 Interprovincial Comparison	A 8
Government Employees, 1984 Interprovincial Comparison	A 9
Provincial Revenue, 1985-86: Major Sources	A 10
1985-86 Revenue Estimates	A 11
Revenue Per Capita, 1984-85 Interprovincial Comparison	A 12
Federal Transfer Payments to Manitoba 1979-80 to 1985-86	A 13
Incremental Capital Authority Requirements for Non-Budgetary Programs, 1985-86	A 14
Province of Manitoba Direct and Guaranteed Debt Net Refunding Requirements by Fiscal Year	A 15
Statement of Valuation and Purpose of Long-Term Debt Outstanding	A 16
Direct and Guaranteed Debt: By Purpose	A 17
Total Debt Per Capita Interprovincial Comparison	A 18
Debt Charges Per Capita, 1984-85 Interprovincial Comparison	A 19

Summary of Budgetary Position

(Millions of Dollars)

	1983-84 Budget	1983-84 Actual	1984-85 Budget	1985-86 Budget
Total Current and Capital Expenditure	3,326.7	3,226.1	3,457.6	3,618.7
Less: Total Revenue	2,747.8	2,797.2	2,968.9	3,122.5
Total Budgetary Requirement	**578.9**	**428.9**	**488.7**	**496.2**
Less: Gross Capital Expenditure	284.1	263.5	321.0	303.6
Net Operating Deficit	**294.8**	**165.4**	**167.7**	**192.6**

Total Budgetary Requirement, 1980-81 to 1985-86

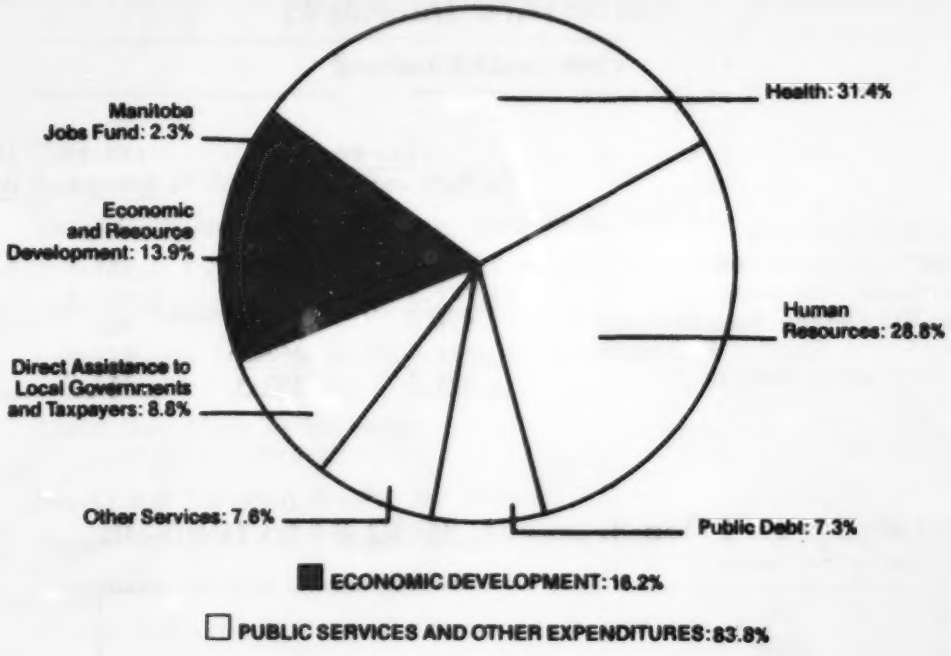


b—budget

Source: Manitoba Department of Finance
(Public Accounts and Budgets)

Provincial Expenditure, 1985-86

Major Categories

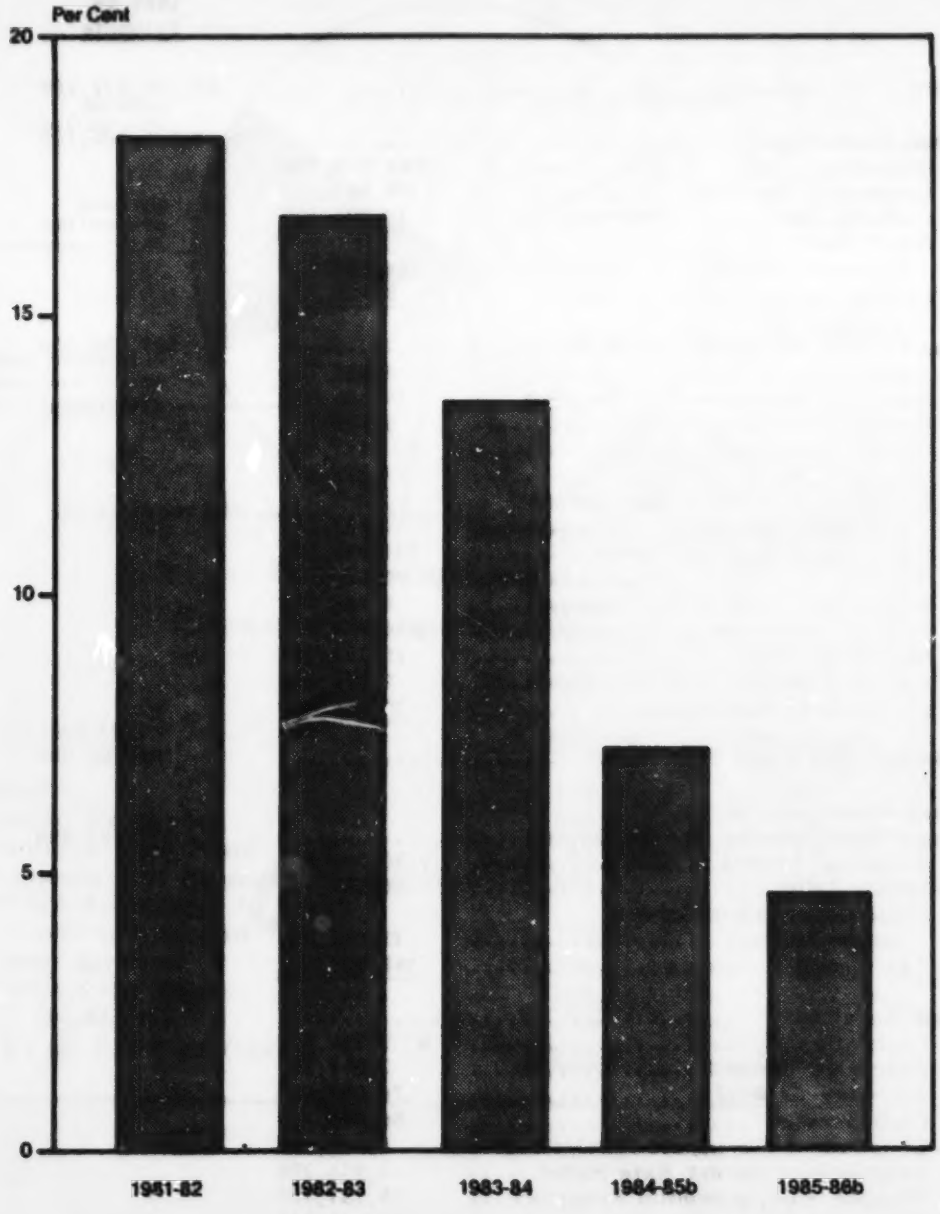

Health: 31.4%
Manitoba Jobs Fund: 2.3%
Economic and Resource Development: 13.9%
Human Resources: 28.8%
Direct Assistance to Local Governments and Taxpayers: 8.8%
Other Services: 7.6%
Public Debt: 7.3%
ECONOMIC DEVELOPMENT: 16.2%
PUBLIC SERVICES AND OTHER EXPENDITURES: 83.8%

ESTIMATES	$ Millions	$ Per Capita
Health	1,136.4	1,065
Human Resources	1,040.8	976
Manitoba Jobs Fund	83.2	78
Economic and Resource Development	501.3	470
Direct Assistance to Local Governments and Taxpayers	317.8	298
Other Services	276.2	259
Public Debt Costs	263.0	247
TOTAL EXPENDITURES	**3,618.7**	**3,393**

1985-86 Expenditure Estimates

		1985-86 Estimate	% of Total
Health		$1,136,432,200	31.4
Human Resources		1,040,794,100	28.8
° Education	$663,314,700		
° Community Services	164,487,300		
° Culture, Heritage & Recreation	19,993,300		
° Employment Services & Economic Security	184,036,800		
° Labour	8,962,000		
Economic and Resource Development		501,356,000	13.9
° Agriculture	$ 58,050,700		
° Business Development & Tourism	15,565,400		
° Co-operative Development	6,591,100		
° Crown Investments	891,900		
° Energy & Mines	11,373,800		
° Environment & Workplace Safety & Health	12,201,600		
° Highways & Transportation	201,055,200		
° Housing	44,006,200		
° Industry, Trade & Technology	8,968,200		
° Natural Resources	86,806,100		
° Northern Affairs	26,727,400		
° Canada-Manitoba Enabling Vote	9,918,400		
° Hydro Rate Stabilization	19,200,000		
Manitoba Jobs Fund		83,160,000	2.3
Direct Assistance to Local Governments and Taxpayers		317,781,800	8.8
° Municipal Affairs	$ 39,395,700		
° Urban Affairs	66,386,100		
° Local Government General Support Grant	13,600,000		
° Tax Credit Payments	198,400,000		
Other Services		276,168,500	7.6
° Legislation	$ 7,564,800		
° Executive Council	2,277,300		
° Attorney-General	70,888,600		
° Civil Service	50,098,700		
° Consumer & Corporate Affairs	4,333,400		
° Emergency Interest Rate Relief	1,914,700		
° Finance - Departmental Programs	15,131,700		
° Government Services	122,959,300		
° Flood Control & Emergency Expenditures	1,000,000		
Public Debt Costs		263,000,000	7.3
TOTAL EXPENDITURE		$3,618,692,600	100.0

Expenditure Increases, Province of Manitoba
1981-82 to 1985-86

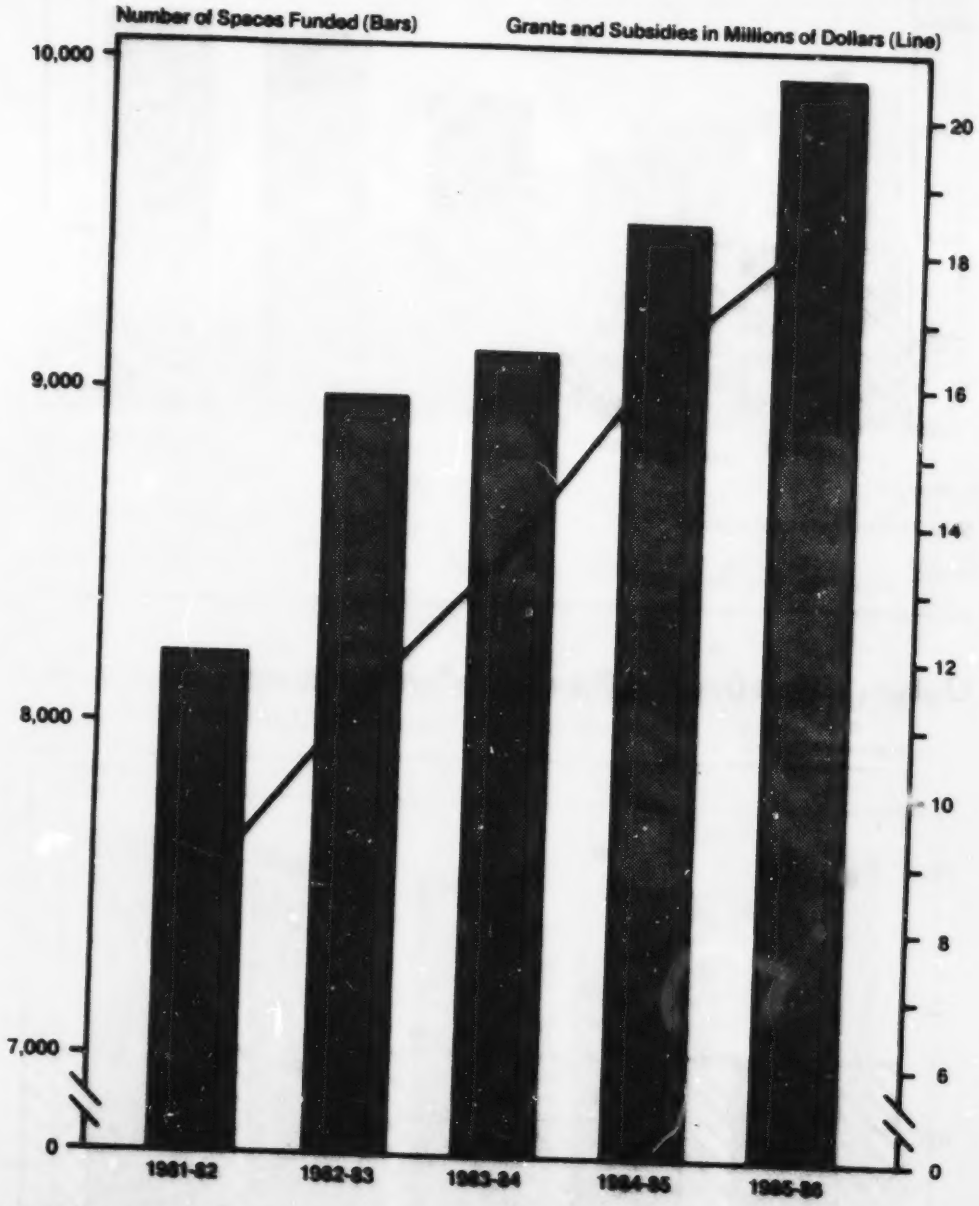


b-budget

Source: Manitoba Department of Finance
(Public Accounts and Budgets)

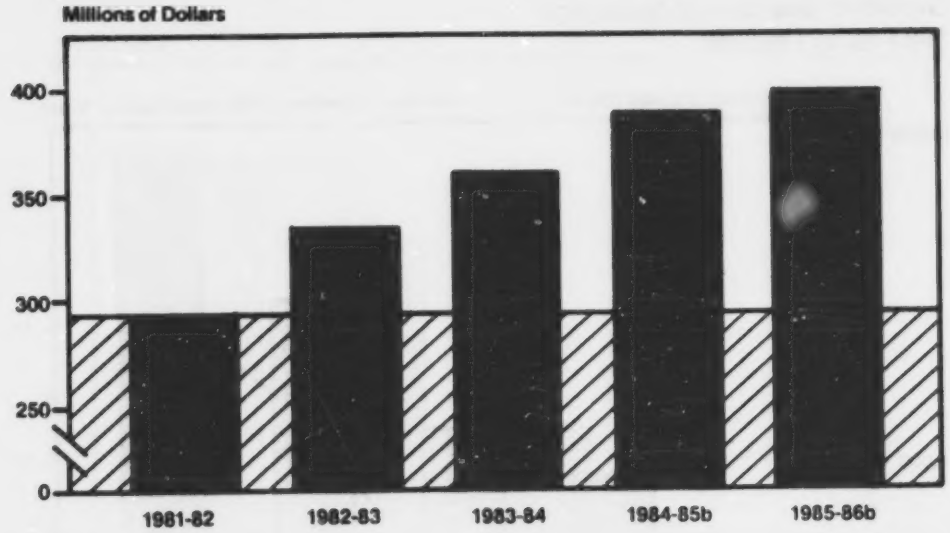
Child Day Care in Manitoba

Growth in Funded Spaces
Growth in Grants and Subsidies
1981-82 to 1985-86



Source: Manitoba Community Services

Provincial Funding for Public Schools

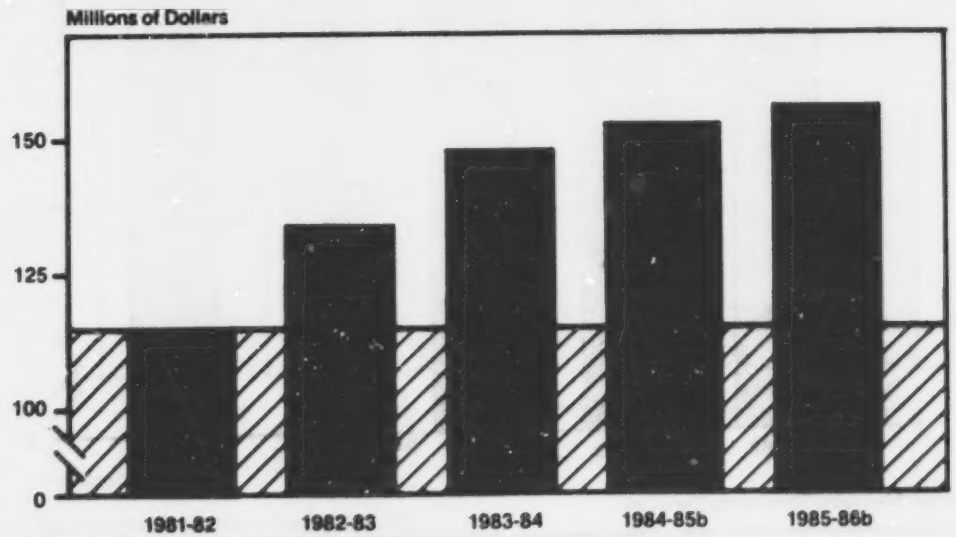


b—budget

Note: Data exclude capital grants.

Source: Manitoba Department of Finance
(Public Accounts and Budgets)

Universities Grants Commission Funding

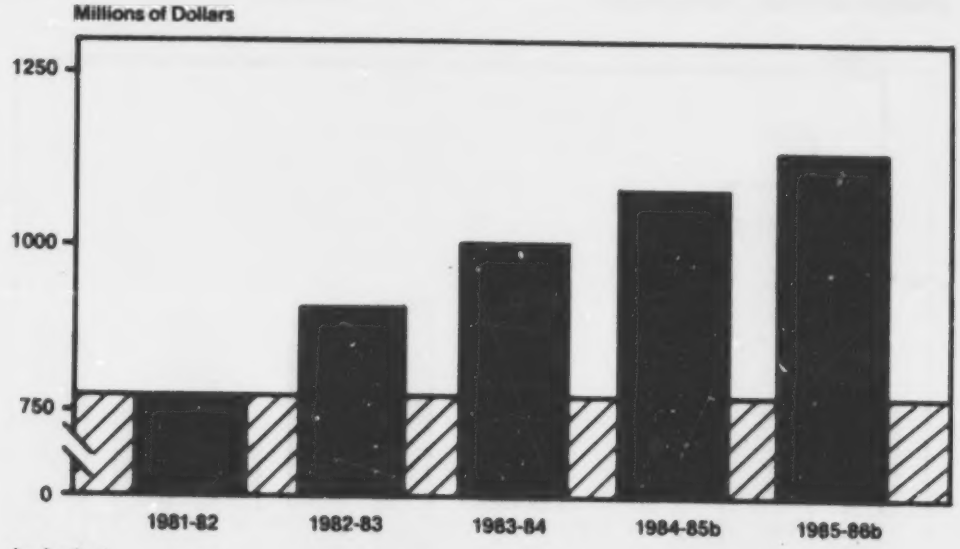


b—budget

Note: Data exclude capital grants.

Source: Manitoba Department of Finance
(Public Accounts and Budgets)

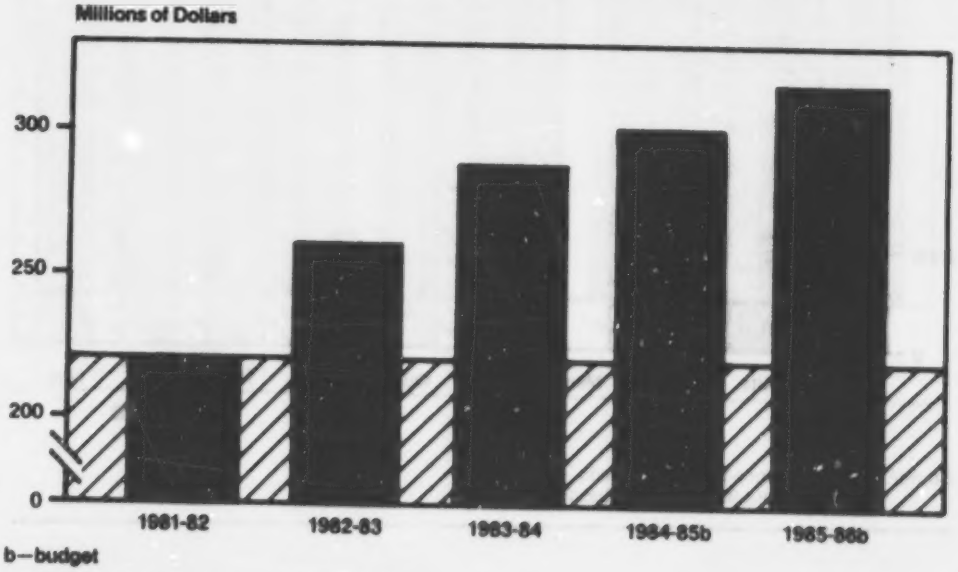
Provincial Health Care Expenditure



b—budget

Source: Manitoba Department of Finance
(Public Accounts and Budgets)

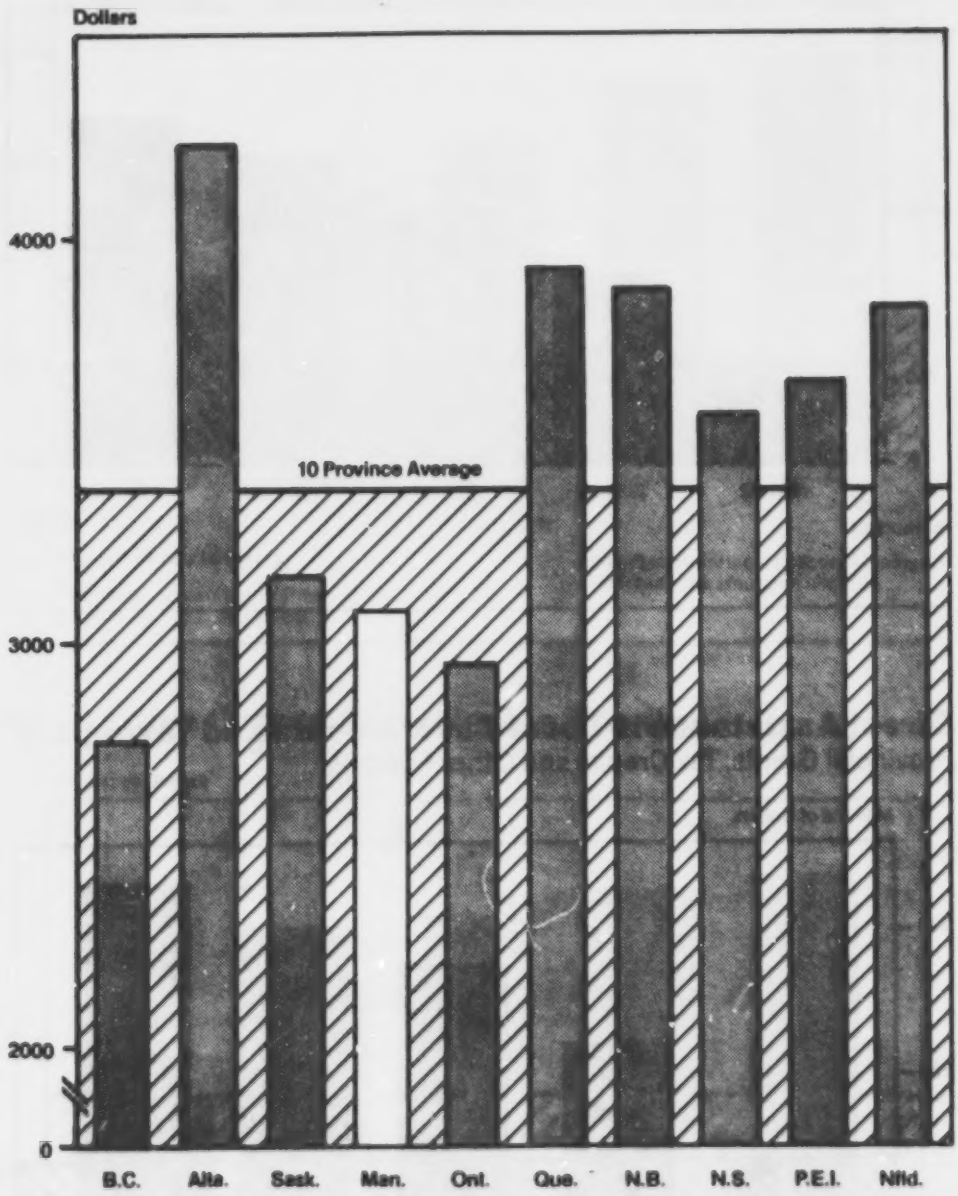
Direct Assistance to Local Governments and Taxpayers
Provincial Grants, Tax Credits and Other Funding



b—budget

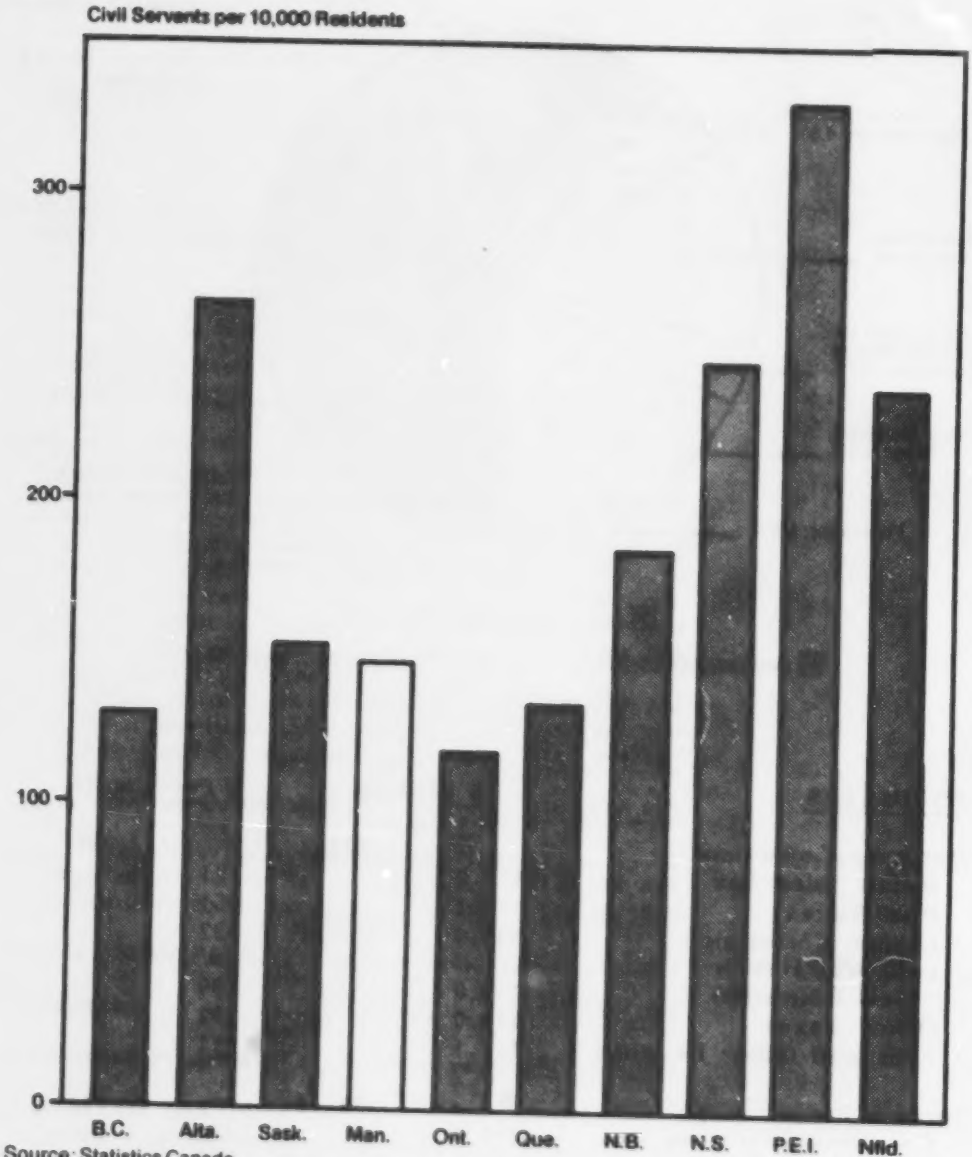
Source: Manitoba Department of Finance
(Public Accounts and Budgets)

Expenditure Per Capita, 1984-85
Interprovincial Comparison



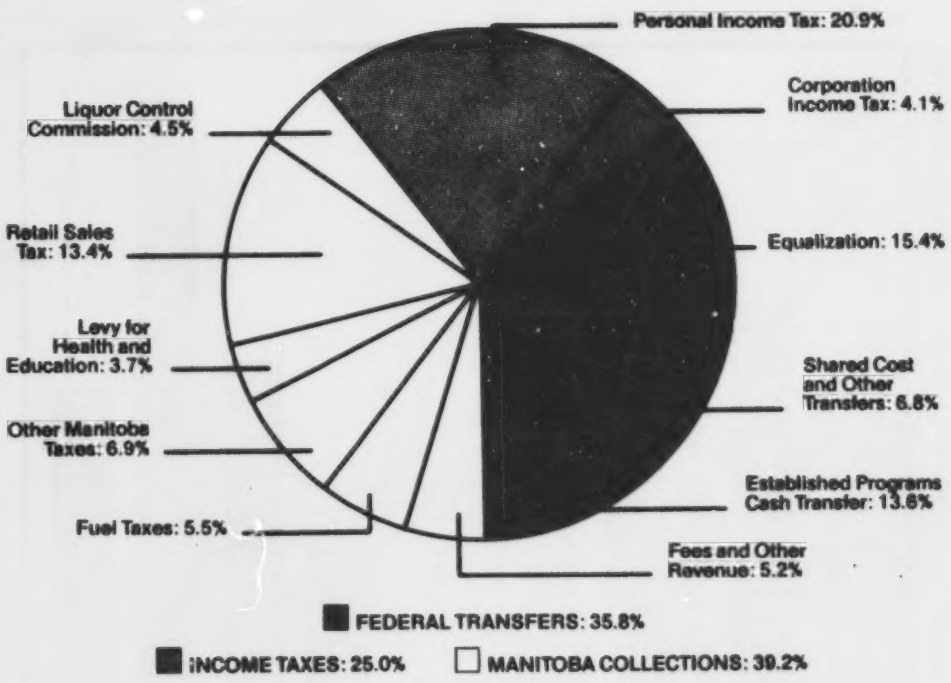
Source: The Conference Board of Canada
Based on 1984-85 Provincial Budget Estimates

Government Employees, 1984
Interprovincial Comparison



Source: Statistics Canada
Data as of March, 1984

Provincial Revenue, 1985-86
Major Sources

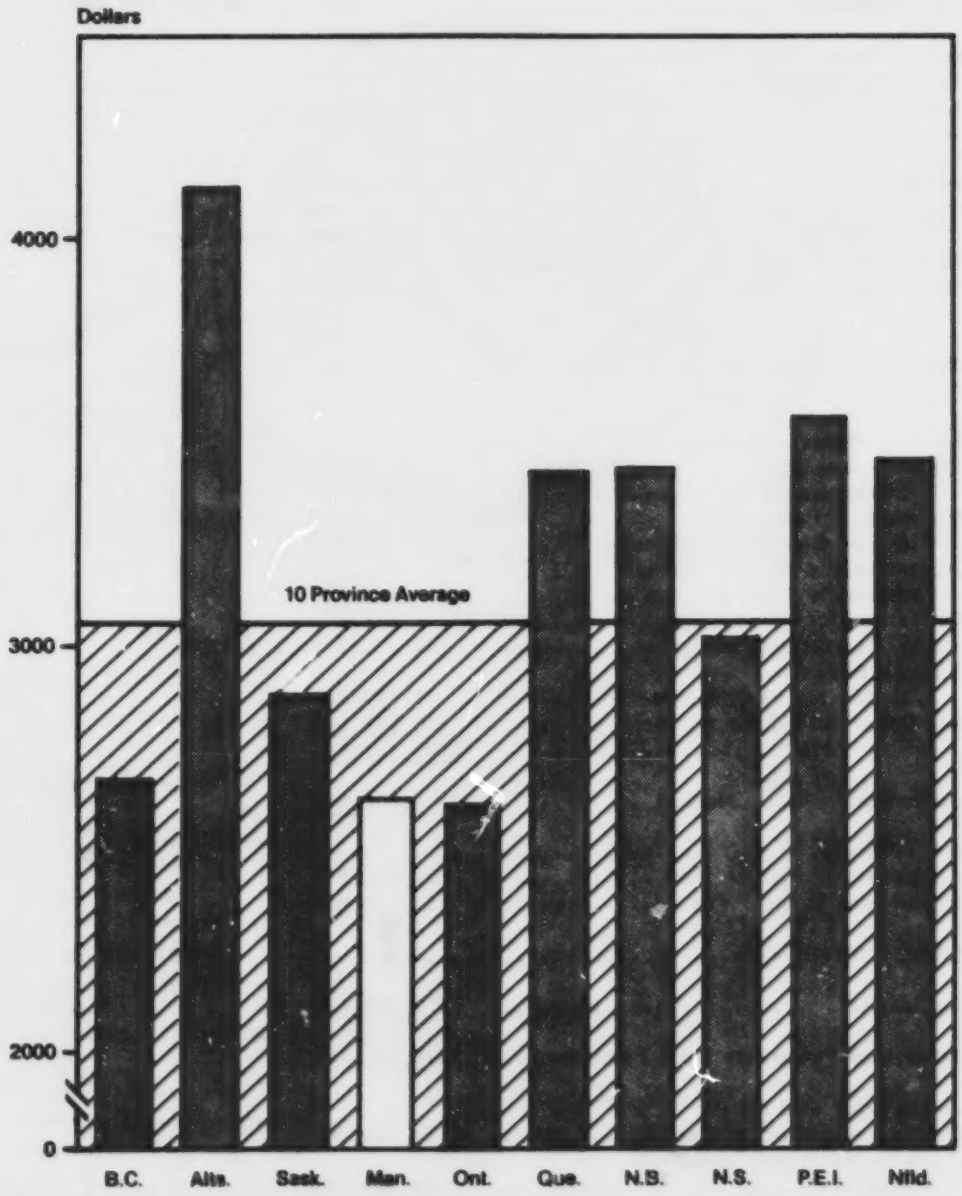

Personal Income Tax: 20.9%
Corporation Income Tax: 4.1%
Equalization: 15.4%
Shared Cost and Other Transfers: 6.8%
Established Programs Cash Transfer: 13.6%
Fees and Other Revenue: 5.2%
Fuel Taxes: 5.5%
Other Manitoba Taxes: 6.9%
Levy for Health and Education: 3.7%
Retail Sales Tax: 13.4%
Liquor Control Commission: 4.5%
FEDERAL TRANSFERS: 35.8%
INCOME TAXES: 25.0%
MANITOBA COLLECTIONS: 39.2%

ESTIMATES	$ Millions		$ Per Capita	
Manitoba Collections		1,222.2		1,146
Retail Sales Tax	417.0		391	
Fuel Taxes	172.1		161	
Liquor Commission	141.0		132	
Levy for Health and Education	116.0		109	
Other Taxes	215.0		202	
Fees and Other Revenue	161.1		151	
Income Taxes		781.9		733
Corporation Income Tax	129.8		121	
Personal Income Tax	652.1		612	
Federal Transfers		1,118.4		1,049
Equalization	479.7		450	
Established Programs	426.5		400	
Cost-Sharing and Other	212.2		199	
TOTAL REVENUE		3,122.5		2,928

1985-86 Revenue Estimates

OWN SOURCE REVENUE		1985-86 Estimate	% of Total
Manitoba Collections		$1,222,246,200	39.2
Taxes, Levies and Collections			
° Corporation Capital Tax	$ 25,700,000		
° Gasoline Tax	115,400,000		
° Insurance Corporations Tax	16,700,000		
° Levy for Health & Education	116,000,000		
° Mining Tax	23,000,000		
° Motive Fuel Tax	56,700,000		
° Oil & Natural Gas Tax	17,000,000		
° Retail Sales Tax	417,000,000		
° Revenue Act, 1964, Part I	34,000,000		
° Tobacco Tax	80,000,000		
° Other Taxes	4,776,800		
° Reciprocal Taxation Agreement	13,900,000		
Sub-Total	$920,176,800		
Fees and Other Revenue			
° Fines & Costs; Land Titles; & Other Legal	$ 24,903,600		
° Minerals & Petroleum & Other Energy & Mines	7,152,000		
° Automobile & Motor Carrier Licences & Fees	27,605,700		
° Drivers' Licences	5,015,200		
° Water Resources	14,816,200		
° Parks; Forestry; Fisheries & Other Natural Resources	12,727,800		
° All Other Manitoba Collections	68,848,900		
Sub-Total	$161,069,400		
Liquor Control Commission	$141,000,000		
Income Taxes		781,900,000	25.0
° Corporation Income Tax	$129,800,000		
° Individual Income Tax	652,100,000		
FEDERAL TRANSFERS		1,118,350,600	35.8
Equalization	$479,700,000		
Established Programs Tax Transfer	$426,500,000		
Shared-Cost and Other			
° Canada Assistance Plan	$137,383,600		
° Canada-Manitoba Training Agreement	22,383,400		
° Other	52,383,600		
Sub-Total	$212,150,600		
TOTAL REVENUE		$3,122,496,800	100.0

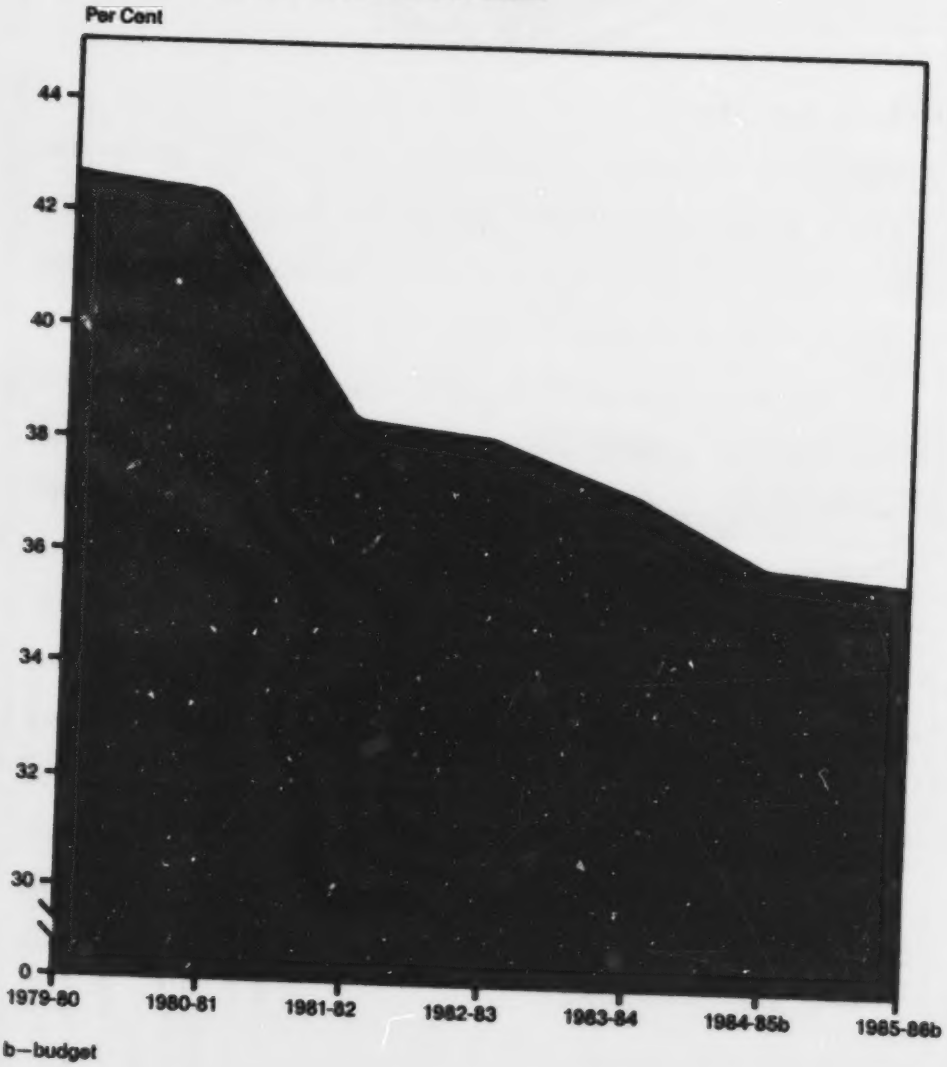
Revenue Per Capita, 1984-85
Interprovincial Comparison



Source: The Conference Board of Canada
Based on 1984-85 Provincial Budget Estimates

Federal Transfer Payments to Manitoba, 1979-80 to 1985-86

Percentage of Total Provincial Revenue



b—budget

Source: Manitoba Department of Finance

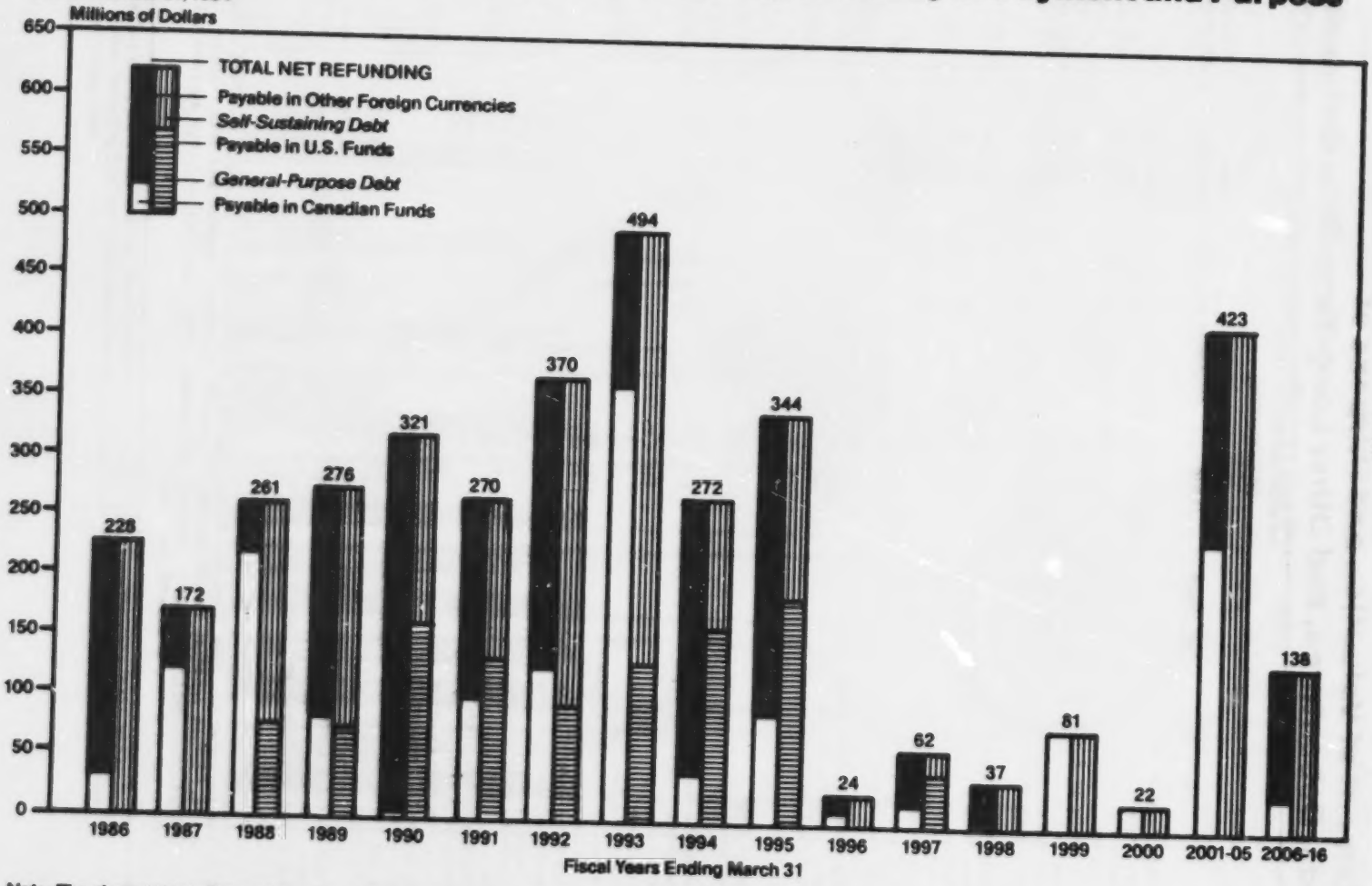
Incremental Capital Authority Requirements for Non-Budgetary Programs, 1985-86

The Loan Act, 1985

Manitoba Jobs Fund	$ 57,000,000
The Manitoba Hydro-Electric Board	45,521,000
The Manitoba Hydro-Electric Board - Limestone	1,000,000,000
The Manitoba Telephone System	24,500,000
The Manitoba Agricultural Credit Corporation	20,000,000
The Manitoba Housing and Renewal Corporation	111,600,000
Manfor Ltd.	36,300,000
Manitoba Development Corporation	10,000,000
Manitoba Beef Stabilization Fund	5,000,000
The Manitoba Water Services Board	8,500,000
Communities Economic Development Fund	1,700,000
Emergency Interest Rate Relief Programs	1,750,000
Venture Manitoba Tours Ltd.	1,000,000
	$1,322,871,000

Province of Manitoba Direct and Guaranteed Debt
Net Refunding Requirements by Fiscal Year: By Currency of Payment and Purpose

as at December 31, 1984



Note: The above table indicates the amount that the Province of Manitoba will have to borrow for the purpose of repaying Direct and Guaranteed Debt after application of sinking funds based on the Canadian Dollar Equivalent on date of issue.

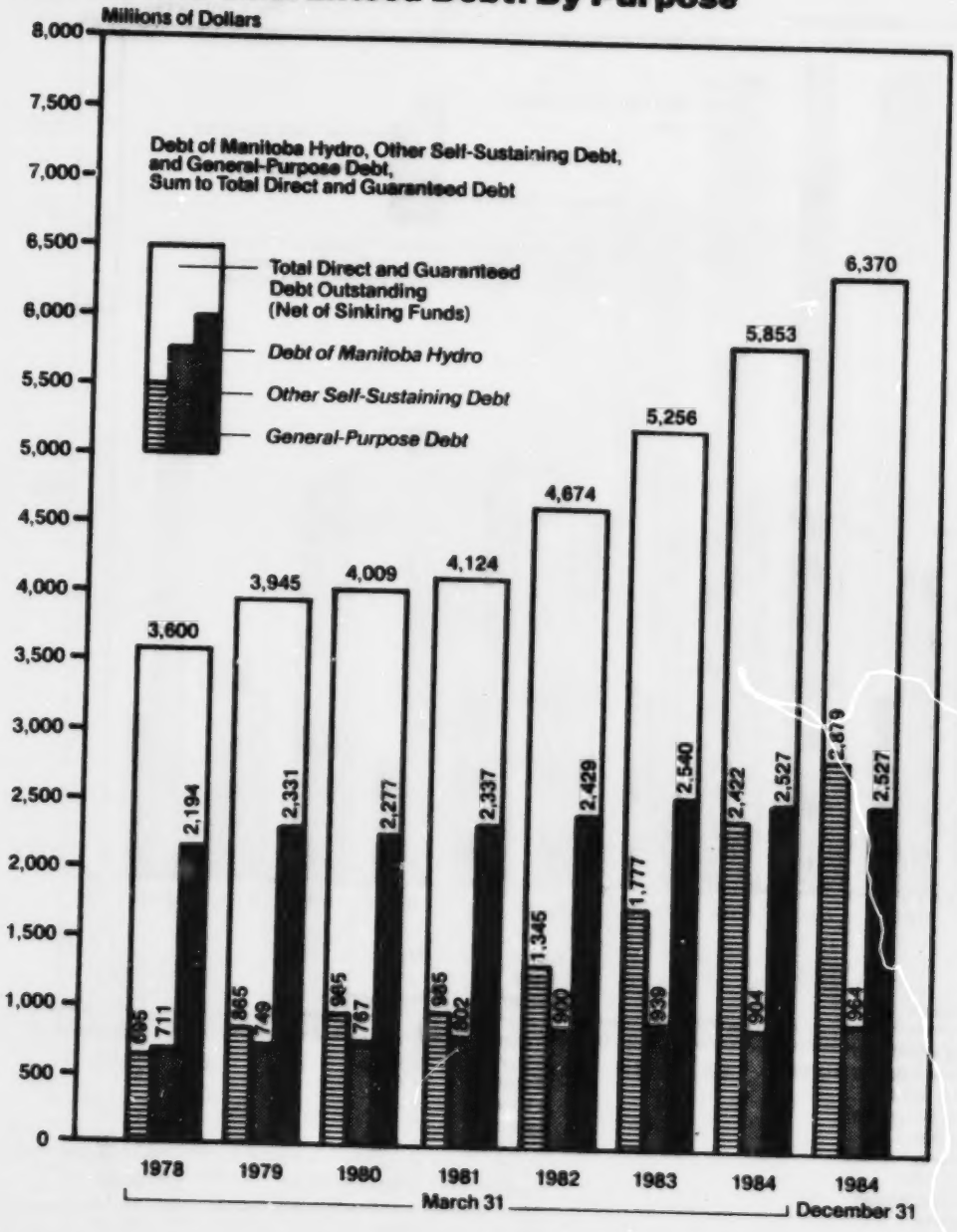
Statement of Valuation and Purpose of Bonds, Debentures, and Other Long-Term Debt Outstanding

as at December 31, 1984
(in thousands)

	Par Value	at Date of Issue	Rate as at December 31, 1984	Dollar Valuation	Exchange Fluctuation
Direct Debt Payable in:					
Canadian Dollars	2,895,784	$2,895,784	$1.00	$2,895,784	$ -
U.S. Dollars	1,112,000	1,321,638	1.3208	1,468,729	147,091
Swiss Francs	921,000	515,314	0.5110	470,631	(44,683)
European Units of Account	31,290	38,660	1.2704	39,752	1,092
Japanese Yen	103,100,000	523,229	0.005327	549,230	26,001
Deutsche Marks	400,000	187,266	0.4185	167,400	(19,866)
Total Direct Debt		$5,481,891		$5,591,526	$109,635
Guaranteed Debt Payable in:					
Canadian Dollars	651,559	$ 651,559	$1.00	$ 651,559	$ -
U.S. Dollars	926,000	930,903	1.3208	1,223,060	292,157
Swiss Francs	160,000	56,114	0.5110	81,760	25,646
Deutsche Marks	30,072	9,208	0.4185	12,585	3,377
Pounds Sterling	383	807	1.53	586	(221)
Total Guaranteed Debt		$1,648,591		$1,969,550	$320,959
Total Direct & Guaranteed		$7,130,482		$7,561,076	$430,594
Less: Sinking Funds		760,381			
Net Direct and Guaranteed Debt		$6,370,101			
Purpose of Debt					
General Government Programs		$3,323,554		$3,357,728	$ 34,174
Other:					
The Manitoba Hydro-Electric Board		$2,785,458		$3,144,887	$ 359,429
The Manitoba Telephone System		533,022		566,501	33,479
The Manitoba Agricultural Credit Corporation		160,067		161,633	1,566
Manitoba Data Services		9,183		9,183	-
The Manitoba Housing & Renewal Corporation		109,037			
The Manitoba Water Services Board		17,919		17,919	-
University of Manitoba		17,874		17,874	-
Jobs Fund		94,124		94,124	-
The Manitoba Beef Stabilization		10,000		10,000	-
Manfor Ltd.		36,520		36,520	-
Hog Income Stabilization		5,000		5,000	-
Manitoba Oil & Gas Corporation		5,000		5,000	-
Manitoba Mineral Resources		8,400		8,400	-
Venture Capital Program		1,000		1,000	-
Federal-Provincial Loan Agreements		11,741		11,741	-
Municipal, Hospital & Other Indebtedness		2,583		2,583	-
		$3,806,928		$4,203,348	$396,420
Total Direct & Guaranteed Debt		$7,130,482		$7,561,076	$430,594
Less: Sinking Funds		760,381			
Net Direct and Guaranteed Debt		$6,370,101			

NOTE 1: The December 31, 1984, Canadian Dollar Valuation of the Province's Japanese Yen Debt is based on 76.1 billion Japanese Yen converted at a rate of $0.005271 Canadian and $112.1 million U.S. Dollars (representing 27 billion Japanese Yen covered under currency exchange agreements) converted at a rate of $1.3208 Canadian.

Province of Manitoba
Direct and Guaranteed Debt: By Purpose

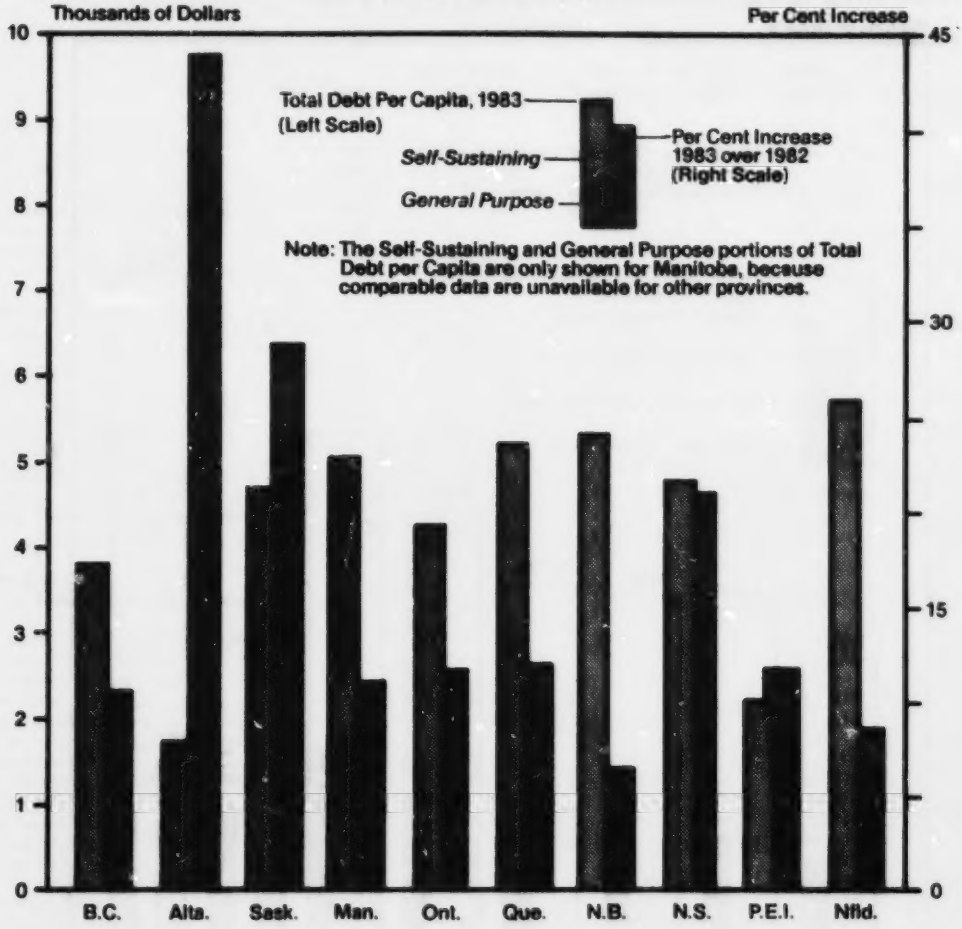


Note: The above table indicates the Total Direct and Guaranteed Debt of the Province of Manitoba (after deducting Sinking Funds) based on the Canadian Dollar Equivalent on the date of issue for all foreign debt.

Total Debt Per Capita

Interprovincial Comparison

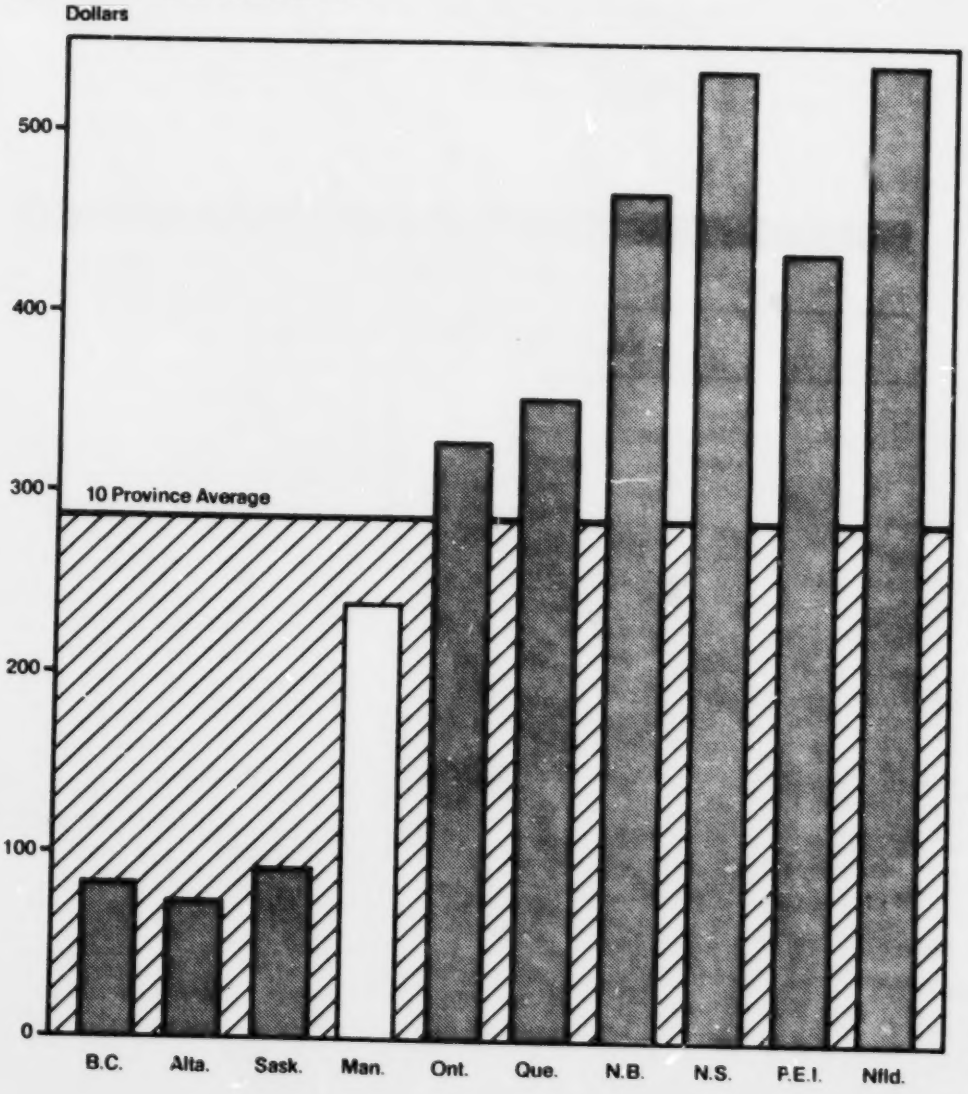
as of March 31, 1983



Province	March 1982 ($ Thousands)	March 1983 ($ Thousands)	Increase (Per Cent)
Newfoundland	5,296	5,751	8.59
Prince Edward Island	1,997	2,235	11.92
Nova Scotia	3,969	4,803	21.01
New Brunswick	4,979	5,313	6.71
Quebec	4,670	5,232	12.03
Ontario	3,704	4,145	11.91
Manitoba	4,537	5,048	11.26
Saskatchewan	3,400	4,384	28.94
Alberta	1,246	1,796	44.14
British Columbia	3,488	3,851	10.41

Source: Bank of Montreal, Provincial Summaries, 1984

Debt Charges Per Capita, 1984-85
Interprovincial Comparison



Sources: The Conference Board of Canada
Based on 1984-85 Provincial Budget Estimates

Appendix B:

ECONOMIC REVIEW

Appendix B:

ECONOMIC REVIEW

Table of Contents

THE NORTH AMERICAN CONTEXT

United States B 1
Canada B 2

DEVELOPMENTS IN MANITOBA

Consolidation and Expansion B 6
Population B 10
Labour Force B 11
Employment by Sector B 12
Incomes and Prices B 13
Investment B 15

Sectoral Review B 17

Agriculture B 18
Mining B 22
Fishing and Trapping B 24
Forestry B 25
Manufacturing B 26
Construction B 28
Utilities B 29

Transportation and Communications B 30
Retail Trade B 31
Finance, Insurance and Real Estate B 32
Community, Business and Personal Services B 33
Tourism B 34

Outlook B 35

Economic Statistics B 37

ECONOMIC REVIEW

THE NORTH AMERICAN CONTEXT

UNITED STATES

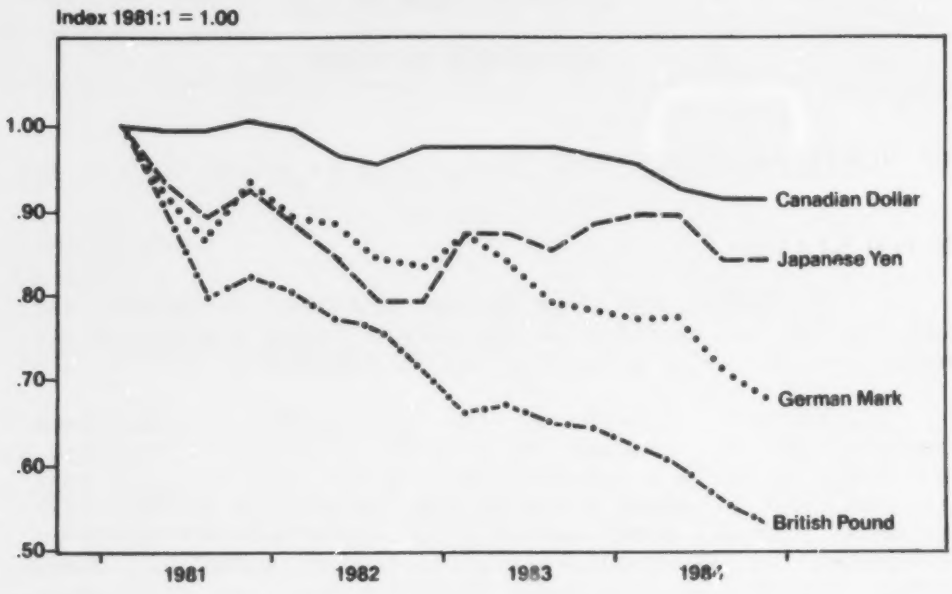
In 1984, the international economic landscape was dominated by the strength of the United States economy in its second year of recovery from the 1981-82 recession.

Economic growth in the United States has been stimulated by an increase in overall government spending, particularly on military programs, and by tax cuts. At the same time, restraint in social spending has contributed to increased inequality. Despite social spending cuts, the recovery has been accompanied by substantially higher budget deficits. And, conflict between expansionary fiscal policy and restrictive monetary policy has resulted in high interest rates and, in turn, a higher-valued dollar. As a result, foreign savings have flowed into the United States and helped finance the American recovery and budget deficit.

Imports of lower-priced goods from countries whose currencies fell relative to the dollar helped keep inflationary pressures moderate. However, the appreciation of the dollar also created tensions within the United States as competitive pressures reduced employment in goods-producing industries and led to protectionist demands by special interest groups.

Relative to the American dollar, the values of all major currencies have declined since 1981. However, the Canadian dollar has maintained its position relative to the U.S. dollar somewhat more successfully than other currencies. The stronger performance of the Canadian dollar compared to other currencies suggests that the federal government now has more flexibility to pursue an independent interest rate policy than at any time in the last few years.

Exchange Rates Relative to the U.S. Dollar, 1981 to 1984



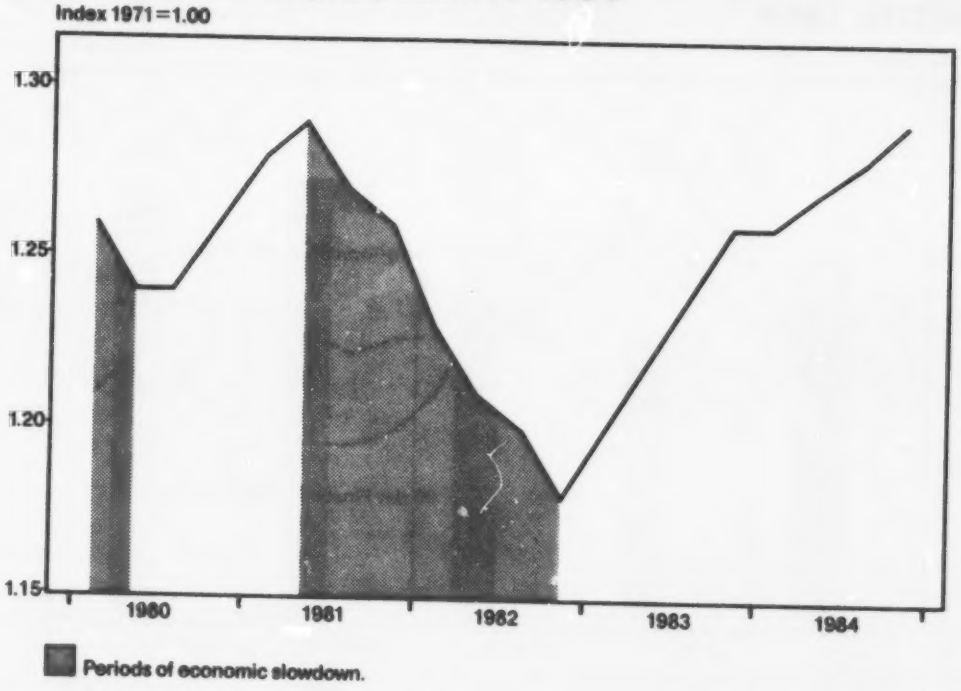
Source: Statistics Canada (CANSIM).

CANADA

Real Gross National Expenditure (GNE) in Canada grew by an estimated 4.7% in 1984, the largest increase since 1976. Interest rates, which averaged higher in 1984 than in 1983, tended to dampen overall investment growth while the economic expansion in the United States provided Canada with a rapidly growing market for exports. Inflation continued to edge downward in 1984 as the GNE price deflator advanced only 3.0%, down from 5.4% in 1983, and its peak of 11.1% recorded in 1980.

On a per capita basis, real GNE approximately regained its pre-recession, 1981 level by the end of 1984. Export demand contributed significantly to this recovery while final domestic demand, that is, purchases by consumers, business and governments, on a per capita basis, remained about 4.2% lower than in mid-1981.

Real GNE Per Capita, 1980 to 1984

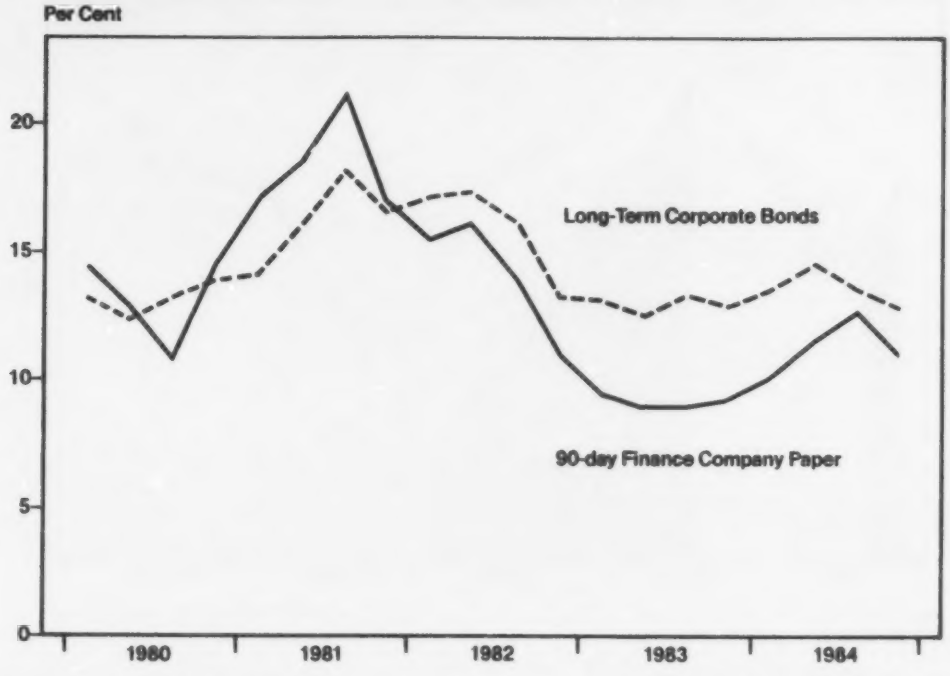


Source: Statistics Canada (CANSIM).

Employment growth in 1984 exceeded that of the labour force for the first time since 1979, resulting in the first decline in the Canadian unemployment rate in five years. The unemployment rate averaged 11.3% in 1984, down from 11.9% in 1983. However, the official unemployment statistics treat part-time work the same as full-time work. Although by the Autumn of 1984, total employment in Canada had risen above its pre-recession peak, even by February, 1985, it is estimated there were more than 125,000 fewer full-time jobs than in August, 1981.

These developments contributed to the first gain in real personal disposable income since 1981. As well, the personal savings rate declined by one-half percentage point to 12.8%, contributing to a 3.4% increase in consumer spending, the largest increase since 1976.

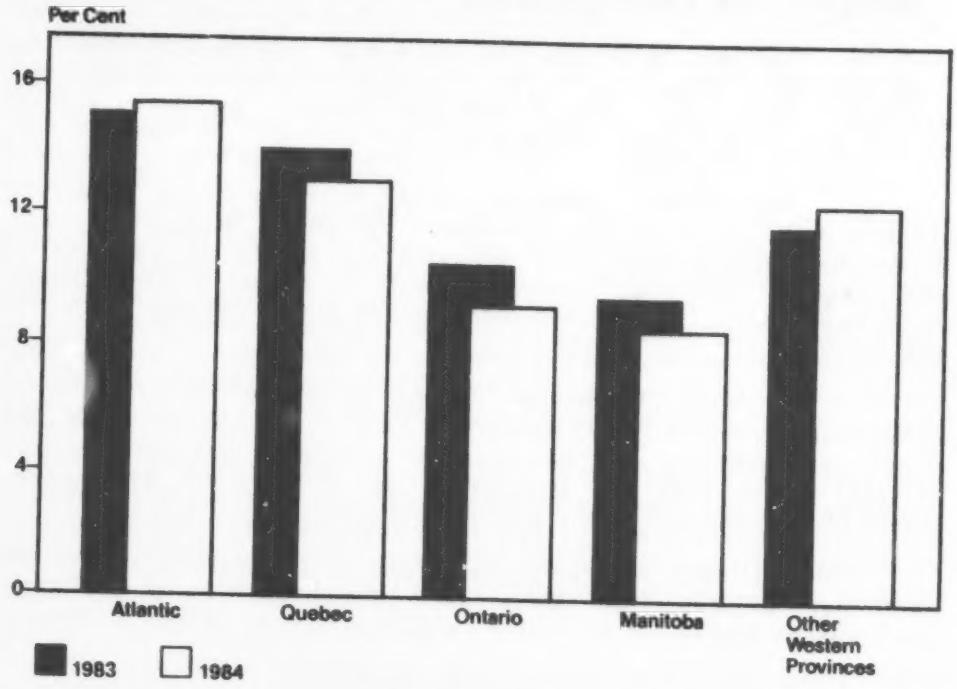
Short and Long-Term Interest Rate Movements, 1980 to 1984



Source: Statistics Canada (CANSIM).

While overall production expanded in 1984, economic performance differed considerably across regions. The strength of the economic expansion in the United States benefitted industries with a strong export orientation, particularly the automotive and parts industry located in Ontario. In the aftermath of the energy development boom, construction expenditures continued to decline in Alberta and British Columbia. In addition, the fishing industry experienced a significant decline in 1984; and agriculture, especially in Saskatchewan and Alberta, was affected adversely by a severe drought. All of these factors contributed to a general imbalance in employment growth and variations in different regions' success in dealing with the most important problem facing Canada today -- unemployment. Although the unemployment rate for Canada as a whole declined in 1984, only Ontario, Quebec and Nova Scotia shared with Manitoba in the decline. Unemployment rates in the remaining six provinces averaged higher than in 1983.

Unemployment Rates by Region, 1983 and 1984



Source: Statistics Canada.

DEVELOPMENTS IN MANITOBA

CONSOLIDATION AND EXPANSION

The Manitoba economy recorded its second year of post-recession growth in 1984. Gross Provincial Product is estimated to have reached $16,690 million, an increase of $1,420 million, or 9.3% from 1983.

During the recession and recovery, the Province undertook a number of measures designed to sustain and strengthen the economy, to enhance its ability to take early advantage of national recovery, and to preserve and create employment opportunities and increase the longer-term potential of the economy.

In the 1983 Budget, many of these measures were consolidated within the Manitoba Jobs Fund which provides provincial financing for job creation programs including capital projects which may be undertaken in co-operation with other levels of government or the private sector.

The Jobs Fund was continued in the 1984 Budget with particular emphasis on longer-term employment and economic development initiatives in twelve targetted sectors of the economy:

- agriculture and food processing,
- forestry,
- energy and hydro,
- small business,
- technology,
- development agreements,
- co-operative development,
- transportation,
- housing and urban development,
- youth and wage assistance,
- provincial capital assets, and
- community assets.

It is estimated that about 35,000 persons have been employed for a total 436,000 work-weeks, or approximately 8,400 person-years, on Jobs Fund projects since its inception.

The provincial government has placed particular emphasis on the role of economic consultations in setting development priorities. Provincial Ministers have travelled throughout the province to seek the views of men and women regarding budgetary and other policy decisions. In 1984, the

Manitoba Economic Advisory Council was established to provide an ongoing forum for consultation on economic matters. The Council held its First Annual Conference on the Economy in Brandon in December, 1984. Economic consultations are also important in co-ordinating federal and provincial economic policies. In this context, provincial Premiers and the Prime Minister have agreed to hold annual First Ministers' Conferences on the Economy and a new process of regular consultations has been established among Ministers responsible for regional economic development.

Economic improvement in Manitoba was more broadly based in 1984 than in 1983. Real output is estimated to have increased by about 4% with virtually all major industrial sectors of the economy sharing in the expansion. The most rapid growth was concentrated among goods-producing sectors, in general, and agriculture, mining and construction, in particular. Among the service-producing sectors, transportation and trade were estimated to have experienced the strongest growth.

The strength and stability exhibited by the Manitoba economy during the recession and into recovery is also reflected in the reversal of out-migration losses in population which had occurred in the 1977-81 period. In 1983-84, population growth in Manitoba exceeded the national average for the first time in several decades.

A key element in the recovery to date has been investment growth, which has been the strongest of all provinces and substantially above the national average in 1983 and 1984. Current estimates indicate capital investment in Manitoba in 1984 was 6.9% above its 1981 peak, while in Canada investment remained 5.7% below its 1981 level.

The province's employment record has been better than the national standard over the recession and recovery. Manitoba was one of the first provinces to re-establish the level of employment which existed prior to the recession. As of February, 1985, employment in Manitoba was 2.6% above its pre-recession peak, compared to 0.8% for Canada. Full-time employment, which bore the brunt of the recession, has been restored in Manitoba and currently stands about 2.8% above its pre-recession peak. Canada, by comparison, has yet to re-establish the level of full-time employment existing prior to the recession.

In 1984, unemployment rates and the actual number of unemployed in Manitoba and Canada declined for the first time in five years. The unemployment rate in Manitoba averaged 8.3% in 1984, 1.1 percentage points lower than in 1983, while in Canada it averaged 11.3%, 0.6 percentage points lower than in 1983.

Most forecasters expect the rate of economic growth in North America to slacken in 1985 from the pace set over the past two years. In Canada, this moderation was already evident in a slowdown in real GNE growth during the latter months of 1984. Recent increases in interest rates raise the concern that the rate of job creation and unemployment reduction achieved in 1984 may not be matched in 1985.

With the prospect of a moderating expansion throughout North America, limited growth is anticipated in markets for Manitoba's goods. Nonetheless, economic projections indicate further growth, albeit at a more modest pace, in output, employment and incomes. The confidence of the business community in Manitoba's economic future was evident again in recent projections of capital investment intentions for 1985. This investment can be expected to raise the capacity of our economy to supply the goods and services needed to expand the economy of the province and meet export opportunities.

Programming under the federal-provincial Economic and Regional Development Agreement (ERDA) will enter its second year in 1985. The Agreement is designed to co-ordinate federal and provincial economic development planning and programming in Manitoba and to undertake several major initiatives through a series of subsidiary agreements. Combined expenditures of the federal and provincial governments during the first five years of the ERDA are expected to exceed $400 million, primarily in the areas of Transportation Development, Development of the Port of Churchill, Mineral Development, Forest Renewal, Agriculture and Food Development and Communications and Cultural Enterprises Development. The federal and provincial governments have also indicated their commitment to conclude new Tourism and Industrial Development subsidiary agreements.

Over the latter half of the 1980's, the construction of the Limestone Generating Station will be the largest project influencing aggregate economic growth in the province. Limestone construction is expected to begin this year and to extend over an eight-year period. The project is expected to provide 6,000 person-years of direct employment and an additional 11,000 person-years of indirect employment. The provincial government has introduced new purchasing, employment and training policies to ensure that Manitoba men and women, northern natives and other northerners, can take maximum advantage of opportunities provided by the development.

Just as the conclusion of a $3.2 billion hydroelectric export sales contract with Northern States Power Company of Minneapolis, Minnesota, ensured Limestone's construction, it is expected that additional firm power sales currently under

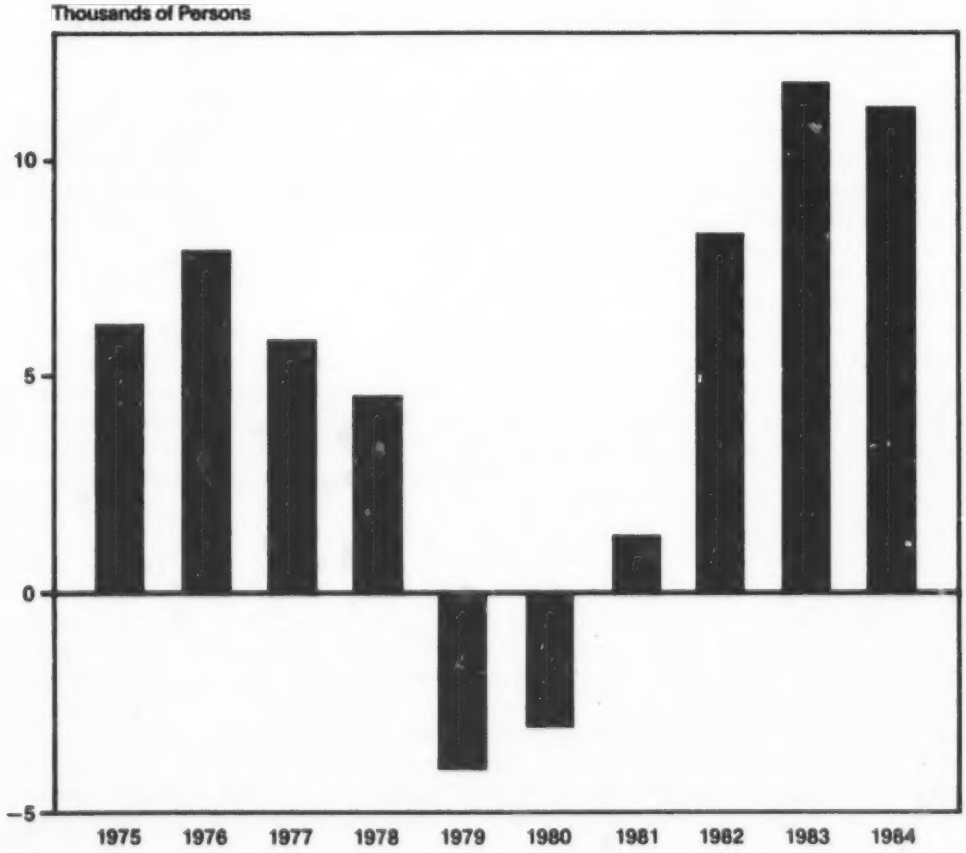
discussion could lead to a decade of continuous development of our northern hydro resources, providing additional employment and ongoing benefits to the province.

Feasibility studies of the potential for a world-scale potash development in western Manitoba are expected to be completed in the next few months. Preliminary analysis indicates that the deposit under consideration is of high quality and contains sufficient mineable reserves to support a world-scale operation for more than thirty years.

POPULATION

Renewed population growth in Manitoba has been evident since the beginning of 1981, due in large measure to a favourable shift in interprovincial migration trends. Between the fourth quarter of 1982 and the third quarter of 1984, the last period for which data is available, net interprovincial in-migration to Manitoba was over 1,100. Over the 1983-84 period, population growth in the province exceeded the national average and, in 1984, exceeded growth in the other three western provinces for the first time since 1939.

Population Growth/Decline, 1975 to 1984



Note: Estimates are for years ending June 1.
Source: Statistics Canada.

LABOUR FORCE

Job creation performance in Manitoba has been significantly better than the national average over the recession-recovery cycle. In February, total employment in Manitoba was 2.6% above its 1981 pre-recession peak, an improvement which was three times better than in Canada as a whole. Employment levels in five Canadian provinces still had not regained pre-recession levels by February, 1985.

Total employment in 1984 averaged 472,000 in Manitoba, an increase of 2.6% from 1983, compared with an increase of 2.5% in Canada. However, all of the net job creation in Manitoba was in full-time positions while a substantial share of net job creation in other parts of the country was in part-time positions.

Job Retention-Creation Record By Region, Pre-Recession Peak to February, 1985

	Percentage Change
Atlantic Region	0.0
Quebec	-0.2
Ontario	3.1
Manitoba	2.6
Other Western Provinces	-3.5
Canada	**0.8**

Source: Statistics Canada (CANSIM).

Manitoba has traditionally maintained a high labour force participation rate relative to the national average. In 1984, the participation rate for all groups in the labour force averaged 65.7%, compared with 64.8% in Canada. The participation rate for women also averaged higher in Manitoba than in Canada, 54.6%, compared with 53.5%.

Both the number of people unemployed and the unemployment rate were reduced in Manitoba in 1984. The total number of unemployed in the province declined by 10%, a rate about three times greater than for the country as a whole. In 1984, the unemployment rate in Manitoba averaged 8.3%, the second lowest among provinces for the second consecutive year.

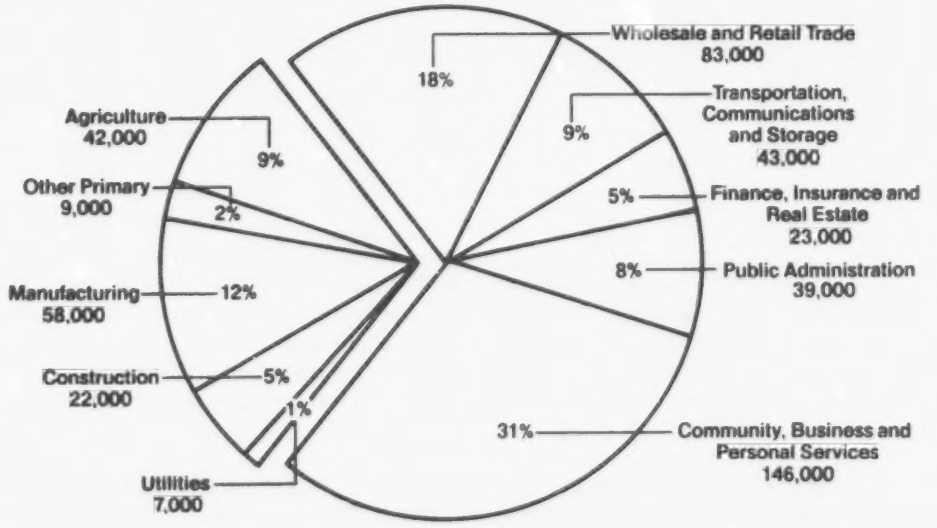
The unemployment rate among young persons, at 14.0%, was the lowest among provinces and well below the national average of 17.9%. Youth employment increased by 2.9%, almost twice the 1.6% increase in Canada. Youth employment measures introduced by the provincial government, including Manitoba Career Start, Manitoba Jobs and Training Program - Supplement for Youth and the Student Temporary Employment Program (STEP) contributed to the increased number of jobs for young people. In early 1985, Manitoba had the second lowest youth unemployment rate among provinces.

Employment by Sector

Manitoba has a diversified economic base with 11% of its work force employed in the primary sectors, 18% in processing and secondary sectors and 71% in the service sectors.

On a sectoral basis, the largest employment gains in Manitoba in 1984 were in construction, up by 4,000 to 22,000, other primary industries, up by 3,000 to 9,000, and transportation, communications and utilities, up by 3,000 to 50,000. Employment in virtually all other sectors was maintained at their respective 1983 levels.

Employment by Sector, 1984



Goods 138,000 (29%)

Services 334,000 (71%)

Total employment, 472,000.

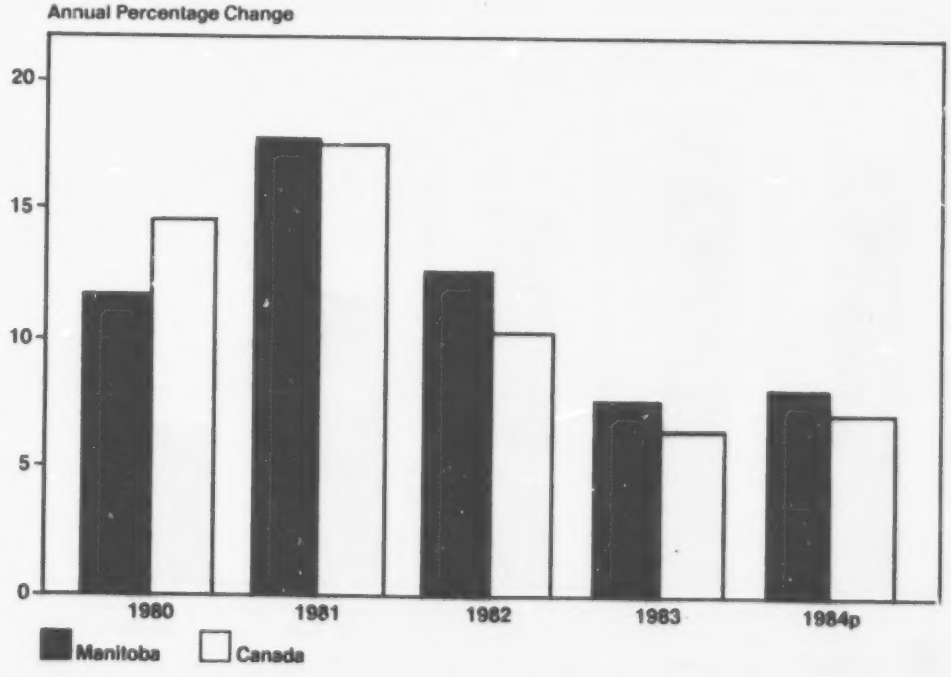
Source: Statistics Canada

INCOMES AND PRICES

Preliminary estimates for 1984 indicate personal income in Manitoba reached an estimated $14,300 million, an increase of 8.5% over 1983. Personal income in Canada grew by an estimated 7.0%. Stronger growth in full-time employment in Manitoba in 1984, contributed to a 7.7% increase in labour income, to $8,915 million, compared with 6.1% growth at the national level. Stronger full-time job creation in Manitoba in 1984 than in 1983 also contributed to an acceleration of labour income growth from the 5.7% increase in 1983. Farm net income exhibits considerable volatility, reflecting weather and market conditions, as well as adjustments to inventory. In 1984, farm net income rose to about $250 million, three and one-half times its 1983 level.

Personal disposable income rose by an estimated 8.4% to about $12,000 million in 1984.

Non-Farm Personal Income, Manitoba and Canada, 1980 to 1984



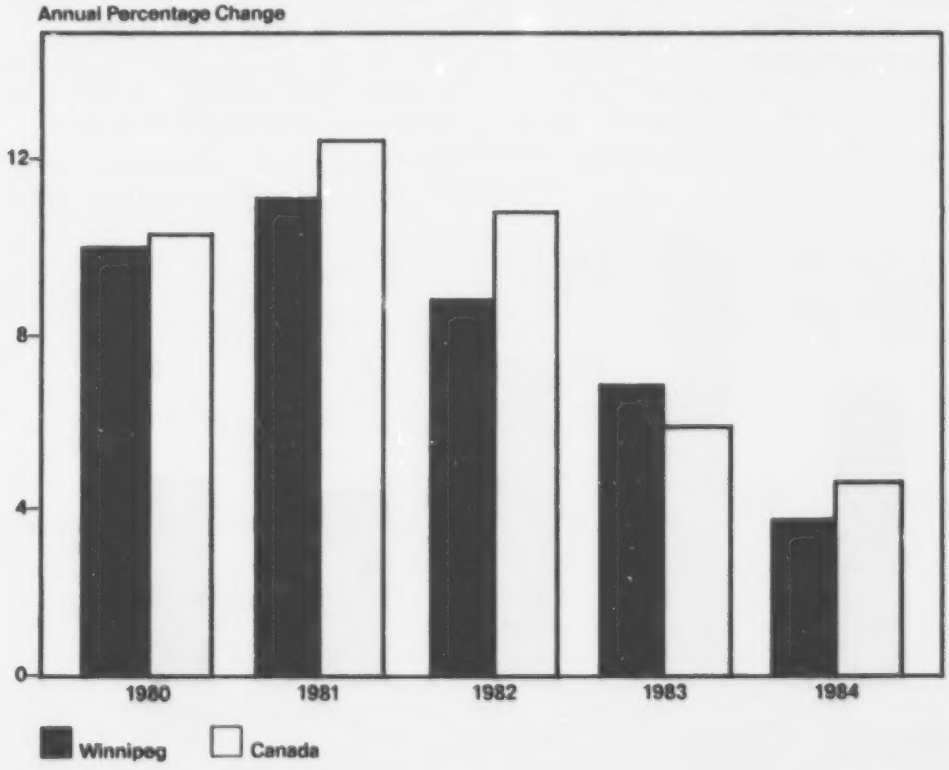
p—preliminary

Source: Statistics Canada and Manitoba Department of Finance.

The Consumer Price Index (CPI) for Winnipeg increased 3.6% in 1984, significantly less than the 6.7% increase in 1983, and the lowest annual increase since 1971. The increase in the CPI for Canada averaged 4.4% in 1984. Slower growth in the food component for Winnipeg accounted for virtually all of the difference between inflation rates. Consumer price inflation has been lower in Manitoba than Canada in four of the last five years.

Growth in personal income has exceeded growth in the CPI over the 1980-84 period for both Manitoba and Canada. Over this five-year period real personal income has increased at an average annual rate of about 3.7% in Manitoba compared with 1.7% in Canada as a whole.

Consumer Price Index, Winnipeg and Canada, 1980 to 1984



Source: Statistics Canada (CANSIM).

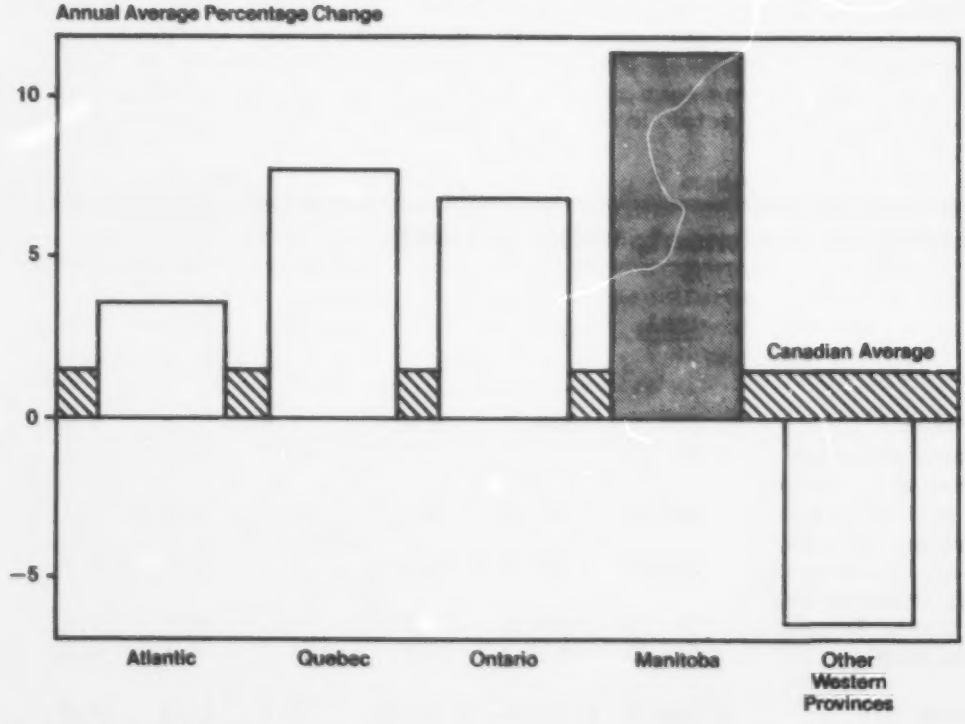
INVESTMENT

Capital investment in Manitoba has been a major contributor to economic growth over the past two years, increasing by 11.7% in 1983 and 11.3% in 1984. While investment growth was concentrated in the housing and service sectors in 1983, it was much more broadly-based in 1984.

According to Statistics Canada's Private and Public Investment Survey, capital investment in Manitoba is projected to exceed $2.7 billion in 1985, a further 11.4% increase, compared to national growth of 6.7%. In 1985, as over the 1982-85 period, Manitoba is projected to experience the fastest growth in capital investment among provinces.

In the West, only Manitoba and Saskatchewan are projected to have higher levels of capital investment in 1985 than in 1982. In 1985, capital investment in Canada is projected to be

Capital Investment by Region, 1982-85



Source: Statistics Canada.

$3.4 billion higher than in 1982. Of this total, $776 million, or 22.4%, is in Manitoba. This contribution to total Canadian investment growth is roughly five times the province's 4.2% population share.

The 11.5% average annual growth in investment over the 1982-85 period compares favourably with all provinces, and also represents nearly a three-fold increase from the 4.1% average growth over the 1978-81 pre-recession period.

Virtually all major industrial sectors are anticipated to contribute to the projected increase in capital spending in 1985, led by finance, manufacturing, communications, institutions and government departments. Early commencement of Limestone construction could contribute to additional investment strength.

Private sector investment is projected to reach $1.8 billion in 1985, bringing the average annual increase to 11.1% from 1982 to 1985, double the 5.7% growth recorded from 1978 to 1981. In Canada, the average increase in private investment from 1982 to 1985 is expected to be 2.3%, one-eighth of the increase from 1978 to 1981. The public sector has contributed significantly to overall economic growth in recent years, both through direct investment, which is projected to increase, on average, by 12.3% over the 1982-85 period to $955 million in 1985; and through its indirect role as a catalyst to private activity. In contrast, public sector investment increased 0.3% on average from 1978 to 1981.

Capital Investment, 1983 to 1985

	1983	1984	1985	1983	1984	1985
	($ millions)			(per cent change)		
Primary	509.6	568.5	604.6	1.3	11.6	6.4
Manufacturing	107.7	140.0	170.2	-33.6	30.0	21.6
Transp., Comm. and Utilities	438.9	477.4	504.7	-5.8	8.8	5.7
Trade, Finance and Commercial	303.8	365.8	426.4	6.6	20.4	16.6
Institutions and Govt. Depts.	395.8	454.5	552.1	10.4	14.8	21.5
Housing	428.6	426.1	452.6	137.7	-0.6	6.2
Total	**2,184.4**	**2,432.3**	**2,710.6**	**11.7**	**11.3**	**11.4**

Source: Statistics Canada.

SECTORAL REVIEW

Manitoba's economic performance over the recession and recovery period has been less volatile than for most other provinces, reflecting the balance and diversity of the provincial economy. Growth in certain key sectors of the economy has been above the national average and has contributed to overall performance being better than the Canadian average, especially in terms of employment, unemployment rates and investment.

Strong growth in goods production in 1984 led overall growth in the economy. Growth among the service sectors of the economy was stimulated by the increase in goods production as well as the more rapid growth in personal disposable income in 1984, compared with 1983.

Widespread drought conditions, which severely reduced crop production in Alberta and Saskatchewan, had a localized effect in the southwest region of the province. Agriculture production in 1984 is estimated to have been substantially higher than in 1983. Strong output growth was also recorded in the mining sector, as a result of increases in petroleum and nickel production. Activity in the construction sector increased dramatically for the second year in a row, with the impetus for growth shifting from residential to non-residential investment. Construction sector employment in 1984 averaged 20% higher than in 1983.

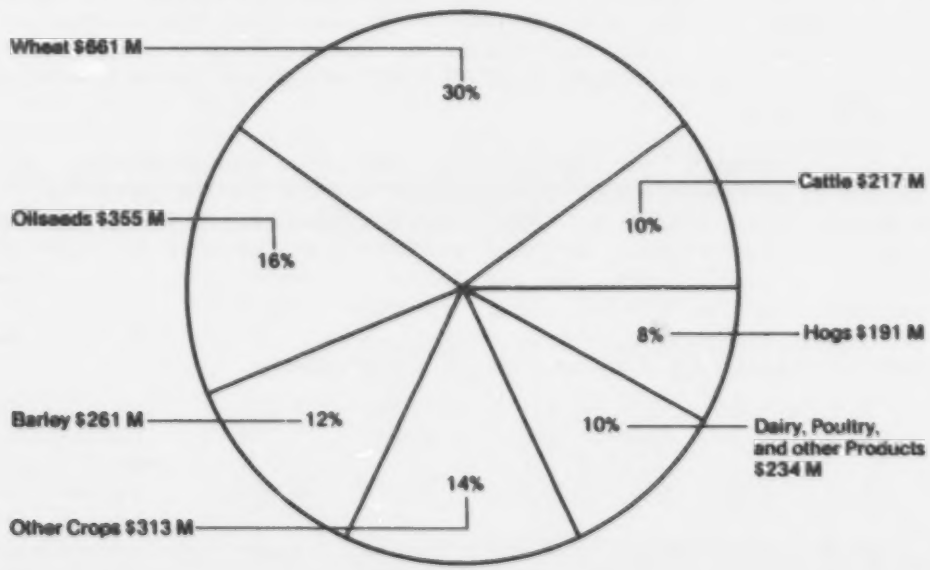
Growth in agriculture, mining, manufacturing and construction contributed to improved output performance in the transportation sector in 1984. In addition, stronger growth in real personal income, as well as continued growth in business profits, provided stimulus for travel expenditures. The trade sector also benefitted from stronger personal income and continued business profit growth in 1984. Retail and wholesale sales increased by 8.4% and 10.3%, respectively.

Agriculture

Agriculture recorded strong increases in production in 1984. However, financial conditions in the farming community remained constrained by continued weakness in international prices for farm products, and the continuing impact of a number of years of high real interest rates and increased production costs.

Production volumes for all major crops exceeded substantially their 1983 levels. Wheat production in 1984 rose to 137.5 million bushels, approximately 1.5 million bushels above the previous record set in 1982, and nearly double the 1980 production level of 70 million bushels. Compared with 1983, production of the main crops grown in Manitoba -- wheat, barley and flaxseed -- increased by 10%, 22% and 41%, respectively. The volume of canola increased by 37%, rye by 20% and sunflowers by 33%.

Value of Agricultural Production, 1984



Total value of production, $2,232 million.

Source: Statistics Canada and Manitoba Department of Agriculture.

Livestock production advanced moderately in 1984 as a small decline in beef production was offset by increased production of hogs and poultry.

Above-normal amounts of precipitation during the fall and winter of 1984-85 replenished soil moisture levels in most areas, resulting in excellent crop production conditions for the 1985 growing season.

Farm cash receipts in Manitoba in 1984 are estimated at $1,926 million, an increase of 11.5% from 1983, while in Canada as a whole there was a 7.0% advance. Total crop receipts increased by 13.1% to $1,227 million, while livestock, dairy and poultry receipts increased by 9.8% to $666 million.

Farm Financial Statistics, 1983 and 1984

	1983		1984	
	Millions of Dollars	Annual Percentage Change	Millions of Dollars	Annual Percentage Change
Total Cash Receipts	1,727.7	3.2	1,926.4	11.5
Crops	1,084.5	7.4	1,227.1	13.1
Livestock	606.1	-7.3	665.5	9.8
Other	37.1	174.8	33.8	-8.9
Income in Kind	19.3	-3.0	19.7	2.1
Realized Gross Income	1,747.0	2.9	1,946.1	11.4
Operating and Depreciation Charges	1,527.2	2.3	1,630.7	6.8
Realized Net Income	**219.8**	**7.1**	**315.4**	**43.5**

Source: Statistics Canada.

Farm expenses are estimated to have increased by 6.8% to $1,631 million in 1984. Thus, realized net income rose by an estimated 44% to $315 million, the largest increase since 1978. However, despite this increase, realized net income remained 18% below its peak of $385 million in 1975.

Agriculture provides the economic base both for most rural communities in southern Manitoba and for related supply and processing industries in urban areas. In recognition of the

importance of the farm sector, the Province has initiated or strengthened a number of programs designed to stabilize and enhance production.

In the area of farm credit and financial support, the lending authority of the Manitoba Agricultural Credit Corporation (MACC) has been extended. In total, 1,300 loans to farmers, valued at $77 million, have been approved in the last three years, for various purposes, including acquisition of livestock, machinery and land, and for debt consolidation. Loan assistance has been directed mainly at younger and lower income producers. Other MACC Programs include the following:

- the Guaranteed Operating Loan Program assisted more than 700 farmers, in financial difficulty, to secure operating loans of approximately $65 million;

- the Interest Rate Relief Program has provided emergency assistance of $11 million to 1,250 farmers, in order to alleviate financial difficulty associated with record high interest rates; and

- the Interest Rate Reduction Program has assisted 640 MACC clients to take advantage of declining interest rates, by reducing their loan repayments by over $18 million.

Farm Financial Review Panels were established to provide advisory assistance to farmers in severe financial distress, and to facilitate effective communication between farmers and their financial institutions.

The provincial government has also been active in livestock development and stabilization programs. In response to the structural and financial problems of the beef industry, the Province introduced in September, 1982, a major voluntary stabilization program, "A Plan for Manitoba Beef". To date, the Province has provided approximately $35 million of assistance to over 5,000 beef producers in Manitoba. About 75% of Manitoba's cow herds are supported under the program.

A stabilization program for hogs was introduced in May, 1983. Approximately 1,000 producers and over 50% of hogs marketed are covered by the program and, to date, in excess of $9 million of payments have been provided to Manitoba hog producers by the Province.

The Province is a party to two major federal-provincial agricultural agreements:

- the Agri-Food Development Agreement will provide $38 million over the next five years, to aid in development of the agricultural sector in Manitoba. The assistance will support both crop and livestock research and development, and soil and water management; and

- the Prairie Livestock Assistance Program has provided about $3.9 million to nearly 2,000 farmers in southwest Manitoba, victims of the 1984 drought, to maintain their herds.

The Province has proclaimed "The Farm Lands Ownership Act". The legislation supports Manitoba farmers by placing restrictions on purchases of land by absentee landlords, speculators and foreign investors. Under the legislation, non-residents of Manitoba and non-farm corporations are restricted to purchases of up to only ten acres of farm land in Manitoba.

To strengthen rural communities, the Province has accelerated construction projects under its Rural Sewer and Water Program, with assistance from the Jobs Fund. Over the past three years, approximately $20 million of sewer and waterworks have been constructed in rural and northern communities under the Program, with the provincial government contributing roughly $10 million.

The Province also provides substantial indirect support to agriculture through its highway construction and maintenance programs and through exemptions from a number of provincial taxes.

While greater support from the federal government, major private financial institutions and agribusiness corporations would increase the effectiveness of provincial programs, they have, nonetheless, had a significant impact in preserving and strengthening the agricultural sector of the provincial economy.

Mining

The mining sector recorded its second year of recovery in 1984, as the value of mineral production rose by 12.1% to an estimated $778 million. The gain in value was mainly attributable to increased nickel production, a modest improvement in the industrial minerals sector and continued buoyancy in the petroleum industry.

The volume of production of nickel increased by 16.3%, while the volume of copper declined by 8.8% and zinc by 0.9%. Higher average prices for most metals, with the exception of copper, along with the changes in output resulted in a 7.0% increase in the value of metal production to $504 million. However, by the end of 1984, price quotations for many metals were at or below their year-earlier levels due to the strength of the United States dollar and demand for metals in world markets. Nonetheless, analysts are forecasting a gradual improvement in metals markets in 1985.

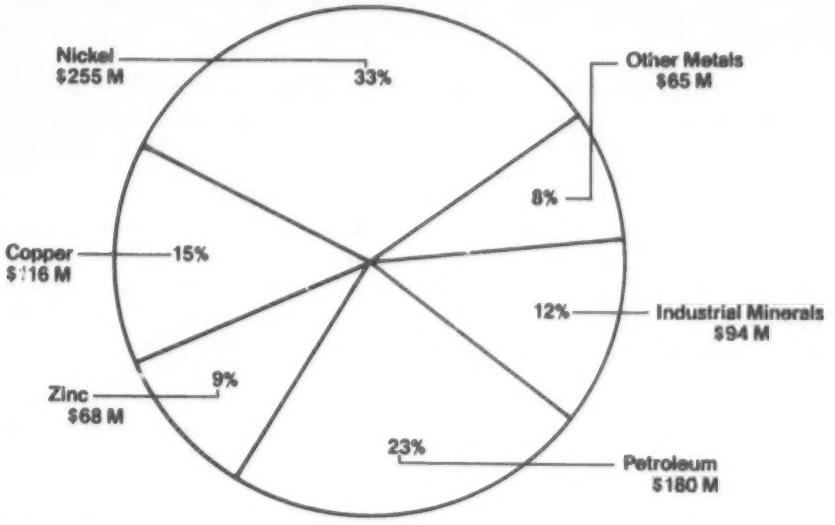
Industrial minerals recorded a 34.7% increase in the value of production to $94 million in 1984. Strong increases in production and unit prices for cement reflected the expansion of construction activity in the province.

Petroleum production recorded its third consecutive advance in volume and value in 1984. An estimated 8.5% increase in production was matched by an equivalent increase in the average wellhead price, raising the total value of petroleum production in Manitoba to an all-time high of $180 million, 17.7% higher than in 1983. In 1984, 246 wells were drilled in Manitoba, one less than in 1983. Of the total, 218 were completed as potential oil wells, indicating an 89% success rate.

Development of the Waskada oil field continued in 1984 with the opening of Manitoba's first natural gas processing plant to recover propane, butane and condensate as by-products from the natural gas produced in association with oil. As well, Manoil was a joint-venture partner in building a 44-mile, six-inch crude oil pipeline from Waskada to the Interprovincial Pipeline Company terminal at Cromer. The pipeline began operating in January, 1985, and is operated by Inter-City Gas Corporation.

Mineral exploration activity, as measured by the number of projects underway, drilling on surface exploration, the area of claims staked, and expenditure, increased significantly in 1984. According to preliminary estimates, expenditure on mineral exploration during 1984 totalled $27.5 million, an increase of 66% from $16.6 million in 1983.

Value of Mineral Production, 1984



Total value of production, $778 million.

Source: Manitoba Department of Energy and Mines.

In early 1984, Inco began processing nickel concentrate at Thompson from its Shebandowan Mine in Ontario. Equipment from the Port Colborne, Ontario refinery was relocated in Thompson for electrolytic nickel 'rounds' production and resulted in a significant change in product mix from the Thompson operations by the fourth quarter of 1984. Inco is continuing development of a new open-pit mine at Thompson which is expected to be one of the lowest-cost nickel mines in the world.

The Province provided a $10 million loan to Sherritt Gordon Mines Limited to assist in deepening the Ruttan Mine. The project is expected to be completed on schedule in October, 1985, at the time when the mineable ore reserves at the Fox Mine are expected to be depleted. Sherritt Gordon is also continuing to develop the Agassiz gold deposit.

Hudson Bay Mining and Smelting Co., Limited increased its capital and development expenditures from $12.5 million in 1983

to $21.1 million in 1984. Although these expenditures are substantially lower than in recent years, the Company has indicated that their confidence in mining in northern Manitoba over the longer term is reflected in increased exploration activity.

Feasibility studies regarding the potential for establishing a potash mine in the Russell-Binscarth area are being conducted under a letter of intent signed by the Province and Canamax Resources Inc. in May, 1984. These studies are expected to be completed by June 30, 1985. Preliminary analysis indicates that the deposit under consideration compares favourably in quality and in mining conditions with producing mines in Saskatchewan, and contains sufficient mineable reserves to support a world-class mine with an annual production of 2.0 million metric tonnes for more than thirty years.

In 1984, Manitoba was the first province to sign a federal-provincial Mineral Development subagreement to the new ERDA. The subagreement is to provide $24.7 million over five years to stimulate mineral exploration and assist in mineral processing and productivity improvements. During the first year, strong emphasis was given to the Lynn Lake and Flin Flon regions.

Fishing and Trapping

Preliminary estimates indicate that Manitoba's 3,700 licensed commercial fishermen and helpers will realize a significant increase in the volume of their 1984-85 catch from last year's level of 28 million pounds. As a result, total payments to Manitoba fishermen from fish sold through the Freshwater Fish Marketing Corporation for the year ending April 30, 1985, are expected to reach $21 million, 11% higher than in 1983-84.

Pickerel and whitefish dominate Manitoba's commercial fish catch with other important species including sauger, pike and mullet. Most Manitoba fish are exported, with the U.S. market traditionally accounting for 65% of fish sales, Europe 20% and the remaining 15% being sold within Canada.

In addition to commercial fishing activity, Manitoba's vast network of rivers and lakes provides abundant challenges and opportunities for sports angling. For the year ending March 31, 1984, 191,868 sports fishing licenses were sold generating $1.3 million in revenue. About 17% or 33,000 licenses were sold to out-of-province anglers.

Manitoba's 15,000 licensed trappers harvested $3.9 million worth of wild fur in the year ending August 30, 1984, down 8.2% from the previous year. However, improved prices and higher volumes are expected to generate significant increases in the value of production in the 1984-85 trapping year.

Forestry

Manitoba's commercial forests extend over 257,000 square kilometers or about 40% of the province's total area. Forestry is one of the oldest industries in the province and provides about 10,000 full and part-time jobs for Manitoba men and women.

According to preliminary estimates, 2.1 million cubic metres of wood were harvested by Manitoba logging firms in 1984, an increase of 37% over 1983. The value of logging shipments is estimated to have increased 34% to about $58 million in 1984.

Currently the pulp and paper industry utilizes approximately 55% of Manitoba's wood harvest; 34% of the harvest is processed into lumber and the remaining 11% is used for fuel and other products. The 1984 value of pulp, paper and sawmill production is estimated to have risen 7% to $160 million.

The other major component of Manitoba's forest industry is secondary manufacturing which includes sash, door and other millwork, and miscellaneous wood and paper converters. The preliminary value of 1984 secondary production is $298 million, an increase of 8% from 1983.

A major modernization and expansion of the Manfor complex at The Pas, undertaken with provincial and federal contributions, is nearing completion. Modernization and retrofitting is being carried out in both the lumber and pulp and paper divisions at Manfor. Modernization of the lumber division's sawmill will result in capacity improvements of roughly 40%. The upgrading of the pulp and paper plant has enabled Manfor to produce extremely high quality unbleached kraft paper which is equal to or better than that produced by other North American competitors.

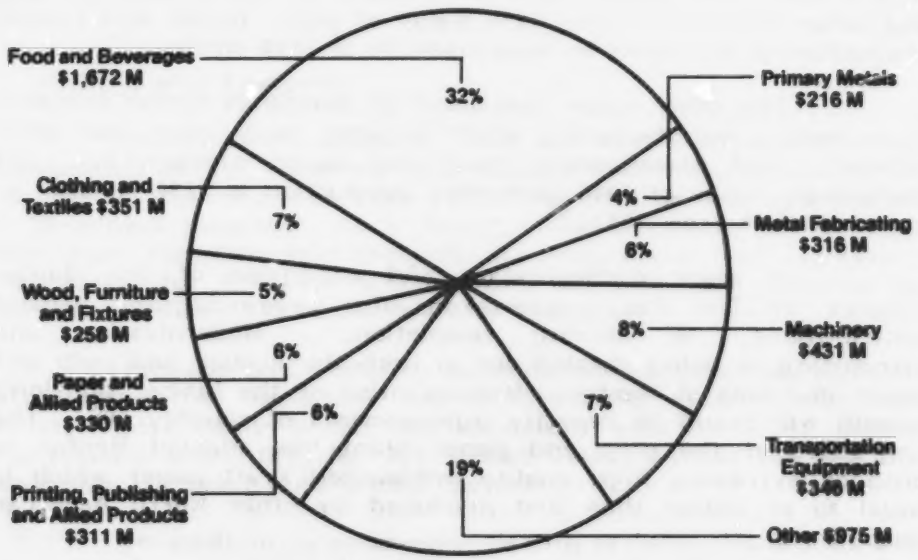
Activity under the five-year Forest Renewal subagreement to the ERDA began in 1984. The objective of these programs is to develop and maintain timber supplies and promote the most efficient utilization of Manitoba's forest resources. In addition, the subagreement provides for improved technology in the detection of forest fires and the funding of forest research programs.

Manufacturing

Manitoba's manufacturing sector demonstrated renewed growth in 1984 with the value of manufacturing shipments increasing by an estimated 8.0% to $5,206 million. In volume terms, that is after allowing for the estimated 4.0% growth in manufacturers' selling prices, shipments rose by about 4% in 1984, the strongest growth in the past five years. Estimates for Canada indicate that the value of manufacturing shipments increased by 13.2%, attributable, in large measure, to strength in shipments from motor vehicle and parts manufacturers located primarily in Ontario. Slower growth in Manitoba's traditional markets in western Canada also contributed to the divergence in national and provincial growth in shipments.

Performance varied considerably across Manitoba's major manufacturing industries in 1984. The strongest growth in shipments was evident in the primary metals, machinery and non-metallic minerals industries where shipments exceeded 1983

Value of Manufacturing Shipments, 1984



Total value of manufacturing shipments, $5,206 million.

Note: Other is primarily comprised of chemical, petroleum and electrical products, non-metallic minerals and leather.

Source: Statistics Canada (CANSIM).

levels by more than 16%. Increased primary metal shipments reflect higher nickel production in the province and the processing in Thompson of nickel concentrate from the Shebandowan Mine in Ontario. Growth in shipments of non-metallic mineral products resulted from the continued strength in Manitoba's construction sector. The food and beverage industry, which accounts for about one-third of the total value of manufacturing shipments in Manitoba, recorded a 7.0% increase in the value of shipments in 1984.

According to the Statistics Canada Private and Public Investment Survey, Manitoba's manufacturing sector recorded a strong increase in investment in 1984.

Last year's Budget introduced a temporary 6% Manufacturing Investment Tax Credit for buildings and equipment used for manufacturing or processing activity in Manitoba. To further stimulate new capital spending, the Province has also initiated the Manitoba Investment Program, of which a key feature is the concept of "Development Agreements".

The concept of Development Agreements provides government with a flexible mechanism for working with individual companies wishing to locate or expand operations in Manitoba. The Province will, in certain circumstances, provide a package of support in exchange for a company's commitment in areas such as employment, investment, affirmative action and environmental preservation or enhancement. Arrangements are negotiated on a case-by-case basis, recognizing both the special needs of different firms and the interests of Manitobans in securing sound, long-term economic development and permanent employment opportunities.

Along with Development Agreements, the Manitoba Investment Program also includes a highly targetted and innovative search methodology for identifying investment opportunities and potential investors in the province.

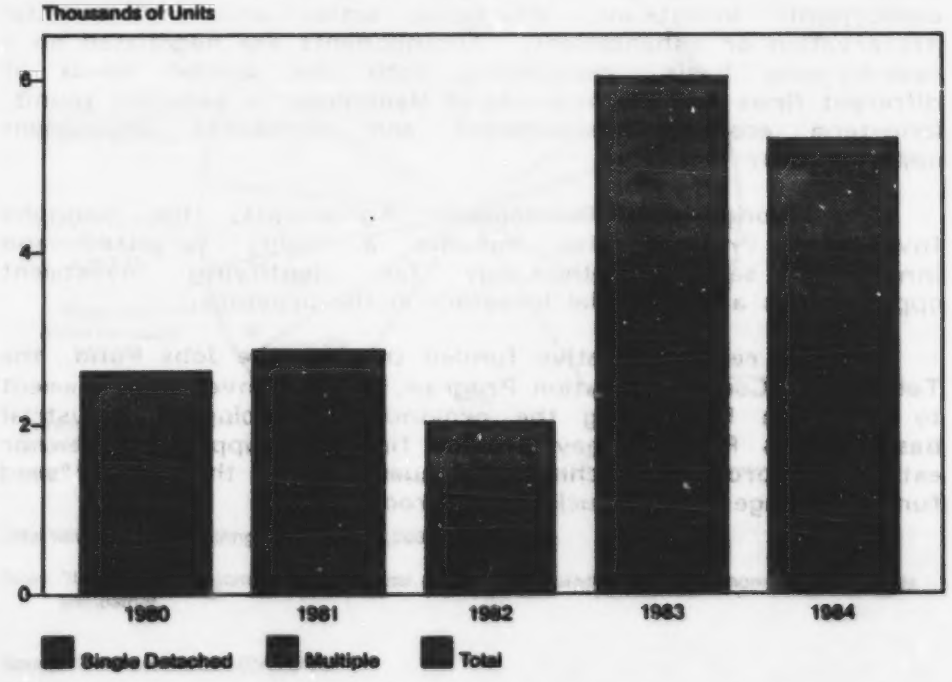
A recent initiative funded through the Jobs Fund, the Technology Commercialization Program, has an investment element to assist in broadening the province's technological industrial base. This Program may provide financial support to new or established promising technological businesses at the crucial "seed funding" stage of introducing new products.

Construction

A strong increase in residential construction in the past two years, in part a response to federal and provincial government incentive programs, and a significant increase in institutional construction in 1984, have contributed to the recovery of overall construction activity in Manitoba. Statistics Canada estimates for 1984 indicate construction expenditures were up 8.5% to $1,782 million, with building construction expenditures up 9.8% to $1,083 million and engineering construction expenditures up 6.4% to $698 million. Construction employment in 1984 increased by more than 20% to 22,000.

Housing starts in Manitoba increased sharply in 1983. In 1984, housing activity remained at a high level in comparison with the early 1980's although the number of starts, at 5,308, was 11.3% lower than in 1983. Provincial housing programs are primarily delivered through mortgage assistance provided under the Jobs Fund and by the Manitoba Housing and Renewal Corporation. Emphasis is being increasingly shifted to multiple unit structures to meet the demand for affordable rental accommodation in the province.

Housing Starts, 1980 to 1984



Source: Statistics Canada (CANSIM).

In Canada, housing starts declined by 17.1% in 1984. The lower level of residential construction activity nationwide in 1984 compared with 1983 may be attributed to a number of factors such as, rising nominal interest rates over the first half of the year, persistent high real interest rates and the expiry in May, 1983, of the Canadian Home Ownership Stimulation Program (CHOSP), which had the effect of advancing into early 1983 starts which would otherwise have occurred in 1984. In October, 1984, the vacancy rates in Winnipeg and Canada were 0.8% and 2.2%, respectively. The lower vacancy rate reported in Winnipeg, relative to the national average, suggests comparatively stronger demand pressure for new housing. Government housing programs, along with strong private demand, contributed to the smaller percentage decline in housing starts in Manitoba in 1984.

Utilities

The utilities sector encompasses the generation, transmission and distribution of electricity, the distribution of natural gas, the treatment and distribution of water, and the collection and disposal of waste. Electricity accounts for about 80% of real output in Manitoba's utilities sector, natural gas about 12%, and the remaining 8% is accounted for by water and waste.

Hydroelectricity and natural gas satisfy 23% and 30%, respectively, of the province's energy requirements. Oil, chiefly in the form of gasoline, meets a further 45% of Manitoba's energy needs. Oil production is discussed under Mining.

In 1984, the growth in the Manitoba economy contributed to a 7.1% increase in the volume of electricity sold in the province. The volume of sales to commercial and industrial users increased by about 7.6% while residential and farm use advanced by 6.4%. Increased domestic sales and less favourable water conditions left less power available for export. However, higher unit prices resulted in export revenues being maintained at the 1983 level. The overall value of retail electricity sales rose to an estimated $537.2 million in 1984, 12.7% higher than in 1983.

A long-term electric power sale to Northern States Power of Minneapolis, Minnesota was successfully negotiated in 1984. Revenues from this sale are anticipated to be $3.2 billion over the twelve-year period commencing in 1993. Discussions are continuing with groups of electric utilities in the United States as well as neighbouring provinces regarding other long-term electric power sales.

The extension of main grid hydroelectric service to Churchill has started with assistance under the Port of Churchill subagreement to the ERDA. Right-of-way clearing is now underway and project completion is expected in early 1987.

The sales volume of natural gas increased in 1984 by over 3% as a result of colder weather conditions in early 1984, which increased demand for natural gas by residential users. As well, industrial sales are reported to have increased significantly.

The major provincial government initiative in energy conservation is currently the Cut Home Energy Costs Program (CHEC) which was introduced in September, 1983, to provide energy conservation advice and to replace the Home Insulation Loan Program (HILP) which began in 1977. By December 31, 1984, more than 40,000 loans, worth $30.5 million, had been approved under these Programs.

For most classifications of customers, Manitoba Hydro continues to have among the lowest electricity rates in Canada. For example, a Winnipeg resident consuming 750 kWh in October, 1984 would have paid only $28.97, the lowest rate among the twelve largest surveyed cities in Canada. This rate compares favourably to $30.69 in Montreal, $36.01 in Toronto, $39.42 in Calgary, $40.64 in Vancouver and $51.05 in Halifax.

Transportation and Communications

Employment in the transportation and communications sector rose to 43,000 in 1984, almost 5% above its 1983 level. Higher growth in real personal disposable income and corporate profits along with increased marketing of agricultural products, manufacturing shipments, mineral production and construction activity provided the basis for strong output growth in the sector in 1984.

Two subagreements to the ERDA provide for federal and provincial joint planning, analysis and implementation of transport and related industrial development initiatives. A third subagreement in this sector relates to communications and culture.

The objectives of the Transportation Development subagreement are to:

- facilitate more effective economic and industrial development,
- increase transportation efficiency and effectiveness,

- maintain or enhance transportation system safety,
- maintain existing or enhanced levels of transportation services, and
- advance industrial technological capability in the transportation field.

In recognition of the long-term strategic importance of Churchill, the Port of Churchill Development subagreement provides a framework for the further development of multi-modal infrastructure in this northern transportation centre.

The Communications and Cultural Enterprises subagreement is the first federal-provincial agreement of its kind and its objectives are to:

- complement the overall economic development strategy as outlined in the ERDA,
- increase employment and income opportunities through the growth and enhancement of communications and cultural enterprises,
- maximize social and economic benefits from an increased development of cultural products,
- foster the creation and increased production of cultural products and strengthen existing markets, encourage expansion into new ones and expand audiences,
- strengthen the human, managerial, creative, financial, technological and structural resources of communications and cultural enterprises, and
- stimulate private investment in the creation and distribution of communications and cultural products, in addition to existing public sector programs.

Retail Trade

The value of retail sales in Manitoba in 1984 increased by an estimated 8.4% over its 1983 total. This growth rate was slightly below the 8.9% average for the 1980-84 period, however, given that inflation in 1984 was the lowest since 1971, the increase in real terms in 1984 is estimated to have been well above the 1980-84 average. In Canada, retail sales advanced by an estimated 8.2% in 1984.

Value of Retail Sales, 1984

	Millions of Dollars	Annual Percentage Change	Percentage Share of Total
Grocery and Food	1,132.7	9.9	25.5
Department, General and Variety	860.0	0.5	19.3
Motor Vehicles	802.5	14.9	18.1
Service Stations, Garages and Parts	477.0	11.6	10.7
Clothing and Shoes	201.7	7.6	4.5
Furniture and Appliances	119.7	14.0	2.7
Other	851.9	7.1	19.2
Total	**4,445.5**	**8.4**	**100.0**

Source: Statistics Canada (CANSIM) and Manitoba Department of Finance.

In 1984, retail sales in Winnipeg increased by an estimated 10.4%, compared with 6.5% outside Winnipeg. Sales growth was strongest in automotive and furniture and appliance stores, with increases of about 14% above their 1983 levels.

Finance, Insurance and Real Estate

Since the early settlement of western Canada, Manitoba has served as a finance and insurance centre. From pioneer beginnings, Manitoba has become an international headquarters for a number of investment and insurance houses. The industry today provides a full range of modern services including banking, insurance and investment opportunities in the securities and commodities markets. The Winnipeg Commodity Exchange, established in 1887, is Canada's only grain exchange, and serves as a major centre for trade in cereal grains, oil seeds and precious metals. In 1984, 1.8 million contracts were traded at the Exchange, with a total value of $9.9 billion, an increase of 9% from 1983.

In Manitoba, there are 129 active credit unions and caisse populaires owned and operated by the membership which exceeds 317,000. Total assets of the credit union and caisse populaires system rose 11.4% in 1984, to $1.7 billion.

Chartered bank assets in Manitoba in the third quarter of 1984, the latest available estimates, totalled $8,296 million, a rise of 6.2% from the third quarter of 1983. Major contributions to this expansion included residential mortgages and personal loans. Residential mortgages totalled $1,474 million in the third quarter of 1984, a rise of 17.6% from the previous year. Personal loans increased significantly in the latter part of 1983, and further growth in the first three quarters of 1984 brought the total to $1,289 million, up 9.1% from the same quarter of the previous year. Business loans totalled $1,844 million in the third quarter of 1984, an increase of 2.8% from the third quarter of 1983.

Liabilities of chartered banks in Manitoba were $8,523 million in the third quarter of 1984. Personal savings deposits, 65.1% of chartered bank liabilities, totalled $5,547 million, 5.5% higher than the previous year.

The real estate industry continued to grow in 1984. The number of housing units sold through the Winnipeg Real Estate Board's Multiple Listing Service increased 30.3% in 1984. The price per unit averaged $59,355, up 4.6% from 1983. The new housing price index for Winnipeg rose 3.8% in 1984. In comparison, new home prices in Canada increased 0.4% last year.

Community, Business and Personal Services

Community, business and personal services include a diverse range of activities such as health and welfare, education, business services, recreation, accommodation and food, and other personal services.

These services can be broadly divided into two areas, commercial and non-commercial services. Non-commercial services are those that generally receive substantial public funding and are comprised chiefly of education and health services. Non-commercial services accounted for approximately 55% of jobs in the sector in 1984. Commercial services include services to businesses and individuals. Services to businesses accounted for 9% of the total employment in the sector while services to individuals accounted for the remaining 36%.

In 1982 and 1983, employment in community, business and personal services increased by 9% to 146,000. However, output gains in 1984 were achieved with an approximately constant level of employment.

Tourism

Manitoba's tourism industry serves a substantial market area. The province's geographically central location in North America attracts national and international convention activity. Winnipeg serves as a regional shopping and entertainment centre for some American residents in North Dakota and Minnesota, as well as residents of northwestern Ontario. Manitoba is endowed with an excellent resource base for participation in year-round recreational activities and has many private and public recreational facilities.

In 1984, tourism expenditures reached approximately $621.5 million, 5.0% above the 1983 level of $592.1 million. Total spending by Manitobans increased 7.3% to $393.5 million in 1984. The 1984 expenditures of other Canadians fell slightly to $144.5 million, as the number of visitors from other provinces declined by about 3.8% to 1.5 million. An estimated 1.6% increase in the number of American overnight visitors to 418,980, resulted in a 4.1% increase in spending by Americans to $70.4 million in 1984. The number of overseas visitors increased by approximately 9.7% to 41,500, and their spending rose by 6.5% to $13.1 million in 1984.

Tourist expenditures are concentrated in the transportation, food and beverage, retail and accommodation sectors. Reflecting the increase in tourist expenditures, the number of Manitoba accommodation room nights sold in 1984 is estimated at 2.8 million rooms, up 8.8% over 1983. Restaurant receipts demonstrated substantial growth, increasing 12.0% in the first ten months of 1984, to a total of $312.4 million. Convention activity in Winnipeg was slightly lower in 1984 with 66,755 convention delegates, down 6.4% from 1983.

In 1984, the federal and provincial governments agreed to extend the Destination Manitoba Tourism Development Agreement for an additional year to March 31, 1985. Both governments have announced their commitment to conclude a new Tourism Development subagreement to the ERDA to begin in the 1985-86 fiscal year.

OUTLOOK

Recent economic performance in Manitoba has reflected a continuation of the improvement which had become evident in 1983. In the second year of post-recession growth, all major sectors of the economy shared in the expansion, while the accelerated pace of job creation and increased investment strengthened the productive capacity of the economy. These broadly-based developments have helped lay the foundation for the future.

In six provinces, unemployment rates averaged higher in 1984 than in 1983. However, reflecting the efforts of communities and employers throughout the province and the success of provincial policies, including the Jobs Fund, Manitoba achieved continued progress in job creation and the reduction of unemployment.

The pace of economic activity in North America in 1985 is generally expected to slacken relative to that attained over the past two years. Recent increases in interest rates are a further particular concern which could severely limit prospects for economic development and progress on job creation and unemployment reduction.

It is currently expected that overall growth in Manitoba will approximate the 2-3% generally expected for the Canadian economy in 1985. Although moderate, further growth is also expected in employment and incomes. However, capital investment in Manitoba is expected to increase 11.4%, the strongest growth among provinces.

Construction of the Limestone Generating Station is expected to commence in the near future. A major new focus of the Jobs Fund this year will be to assist Manitoba men and women in obtaining maximum benefits from economic and employment opportunities that will become available from the construction of Limestone.

The security of Manitoba's future has been enhanced by investments in both private and public projects and the employment opportunities they have afforded. The assets which are being created through the efforts of individual men and women, their businesses and organizations, and their government will benefit Manitobans for years and generations to come.

Economic Statistics, Manitoba, 1980 to 1984

	1980	1981	1982	1983	1984p	Annual Percentage Change 1980	1981	1982	1983	1984p
GROSS PROVINCIAL PRODUCT: ($ millions)	11,260.0	13,190.0	14,100.0	15,270.0	16,690.0	8.7	17.1	6.9	8.3	9.3
SECTORAL INDICATORS:										
Agricultural Production ($ millions)	1,669.0	1,991.0	2,015.1	1,993.8	2,232.2	5.6	19.3	1.2	-1.1	12.0
Manufacturing Shipments ($ millions)	4,372.2	4,981.0	4,835.5	4,819.3	5,206.0	11.5	13.9	-2.9	-0.3	8.0
Mineral Production ($ millions)	820.6	657.9	550.3	693.6	777.7	25.7	-19.8	-16.4	26.0	12.1
Electric Power Sales ($ millions)	405.6	397.0	440.1	476.7	537.2	0.6	-2.1	10.9	8.3	12.7
Housing Starts (Units)	2,597.0	2,824.0	2,030.0	5,985.0	5,308.0	-55.0	8.7	-28.1	194.8	-11.3
Retail Trade ($ millions)	3,163.9	3,578.4	3,830.0	4,099.9	4,445.5	7.8	13.1	7.0	7.9	8.4
Gross Tourism Expenditures ($ millions)	515.7	587.1	584.5	592.1	621.5	14.4	13.8	-0.4	1.3	5.0
INCOMES:										
Farm Cash Receipts ($ millions)	1,480.6	1,659.8	1,677.4	1,727.7	1,926.4	11.6	12.1	1.1	3.0	11.5
Total Personal Income ($ millions)	9,259.0	11,260.0	12,497.0	13,183.0	14,300.0	9.6	21.6	11.0	5.5	8.5
Personal Disposable Income ($ millions)	7,895.0	9,573.0	10,581.0	11,068.0	12,000.0	8.7	21.3	10.5	4.6	8.4
Wages and Salaries ($ millions)	5,827.6	6,637.3	7,219.5	7,631.5	8,210.6	11.7	13.9	8.8	5.7	7.6
CAPITAL INVESTMENT:										
Total ($ millions)	2,024.1	2,276.3	1,954.9	2,184.4	2,432.3	-0.8	12.5	-14.1	11.7	11.3
Private Sector ($ millions)	1,447.6	1,638.3	1,281.1	1,476.3	1,620.8	-1.1	13.2	-21.8	15.2	9.8
Public Sector ($ millions)	576.5	638.0	673.8	708.1	811.5	-0.2	10.7	5.6	5.1	14.6
POPULATION:										
June Estimates (thousands)	1,024.9	1,026.2	1,034.5	1,046.3	1,056.5	-0.3	0.1	0.8	1.1	1.0
LABOUR MARKET:										
Labour Force (thousands)	484.0	490.0	496.0	508.0	515.0	1.7	1.2	1.2	2.4	1.4
Employment (thousands)	458.0	461.0	454.0	460.0	472.0	1.8	0.7	-1.5	1.3	2.6
Participation Rate (%)	64.5	64.8	64.9	65.6	65.7	-	-	-	-	-
Unemployment Rate (%)	5.5	5.9	8.5	9.4	8.3	-	-	-	-	-
CONSUMER PRICE INDEX:										
Winnipeg (1981 = 100)	90.0	100.0	108.8	116.1	120.3	10.0	11.1	8.8	6.7	3.6

p - preliminary

Source: Statistics Canada (CANSIM) and Manitoba Department of Finance.

Appendix C:

TAXATION ADJUSTMENTS

Appendix C:

TAXATION ADJUSTMENTS

Table of Contents

TAXATION ADJUSTMENTS	C 1
Fuel Taxes	C 1
Tobacco Taxes	C 3
Water Power Rentals	C 3
Manufacturing Investment Tax Credit	C 3
INTERPROVINCIAL COMPARISON OF MAJOR LEVIES	C 5

TAXATION ADJUSTMENTS

TAXATION ADJUSTMENTS

The purpose of this Appendix is to provide a general description of the tax changes proposed in the 1985 Manitoba Budget. For more detailed information, the reader is advised to contact the offices listed or consult the appropriate tax legislation. Comparisons with other provinces cite information available on March 18, 1985.

FUEL TAXES (Revenue Impact: +$21.6 million)

Gasoline

The Gasoline Tax will be increased 0.5¢ per litre to 8.0¢ per litre. Manitoba will have the lowest general gasoline tax rate among provinces which collect gasoline taxes. The new rate is equivalent to about 18.6% of the pre-tax retail price compared with 20% under the previous *ad valorem* system.

A surcharge of 0.9¢ per litre on leaded gasoline will be added in order to encourage greater use of lower-pollutant fuel. This measure is expected to halve the average difference between leaded and unleaded gasoline prices. Manitoba is presently the only province to undertake this type of initiative.

The tax on aviation gasoline will increase 0.3¢ per litre to 4.8¢ per litre.

All of these measures take effect April 1, 1985.

Motive Fuel

The Diesel Fuel Tax will be increased 0.6¢ per litre to 9.2¢ per litre. Manitoba's new road use rate will be the second lowest of any province applying these taxes. The Railway Locomotive Diesel Fuel Tax rate will be increased 2.1¢ per litre to 9.2¢ per litre, to equalize the taxes on railway use with road use. The rate applicable to railways is 4.4¢ per litre lower than in Saskatchewan. The tax rate on off-highway use will be adjusted to 7.0¢ per litre. These measures take effect April 1, 1985.

Gasohol

Manitoba continues to be the only province to provide a preferential tax rate for gasohol. The gasohol preference will be maintained at 2.5¢ per litre.

Kerosine

Commencing on April 1, 1985, 1K kerosine, the recommended fuel for unvented kerosine heaters, will be exempted from tax.

Other Fuels

Rates of taxation on other fuels will be increased in proportion to the gasoline and motive fuel tax adjustments. Rates on commercial heating fuel will be increased by 0.1¢ per litre, to 1.8¢ per litre for heating oil, to 1.6¢ per litre for bunker, and to 1.3¢ per litre for propane. The tax rate on vehicle fuel propane will increase 0.3¢ per litre to 4.8¢ per litre. The rate on portable cylinder propane refills will be set at 4.0¢ per kilogram.

General

The calculation of fuel taxes will be simplified in two areas.

For interprovincial truckers, amendments will be proposed so that fuel tax recording will better coincide with the new Canadian Agreement for Vehicle Registration requirements regarding fleet records.

For propane, the two existing literage tax rates for refillable portable cylinders will be combined into a single rate based on the weight of propane sold.

Enquiries regarding fuel taxation should be directed to:

Mining and Use Tax Branch
Department of Finance
Room 700, Norquay Building
Winnipeg, Manitoba
R3C OP8
Telephone: (204) 945-3297

TOBACCO TAXES (Revenue Impact: +$12.5 million)

The Tobacco Tax rate will be increased by 0.5¢ per cigarette, from 2.6¢ to 3.1¢ per cigarette, effective midnight April 28, 1985. Rates on fine-cut tobacco products will be increased accordingly.

Enquiries regarding tobacco taxation should be directed to:

Mining and Use Tax Branch
Department of Finance
Room 700, Norquay Building
Winnipeg, Manitoba
R3C OP8
Telephone: (204) 945-3284

WATER POWER RENTAL RATES (Revenue Impact: +$4.0 million)

Water Power Rental rates will be increased $2.50 per horsepower-year of output to $4.75 per horsepower-year. Installed capacity charges will be increased from $1.30 per installed horsepower to $1.90 per installed horsepower. The increase will leave Manitoba's effective rates under one-half of British Columbia's and Ontario's.

MANUFACTURING INVESTMENT TAX CREDIT
(No Revenue Impact in 1985-86)

The temporary Manufacturing Investment Tax Credit, introduced on April 24, 1984, will be extended for an additional year to the end of 1986. This measure was scheduled to expire on December 31, 1985.

The credit rate is set at 6% of investments in new buildings, machinery and equipment used by Manitoba businesses in manufacturing and processing. The credit reduces Manitoba income taxes otherwise payable, and is administered by Revenue Canada.

Enquiries regarding the Manufacturing Investment Tax Credit should be directed to:

Federal-Provincial Relations and Research Division
Department of Finance
Room 4, Legislative Building
Winnipeg, Manitoba
R3C OV8
Telephone: (204) 945-3757

Interprovincial Comparison of Major Levies

	Nfld.	P.E.I.*	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.*
Personal Income (% of Basic Federal Tax)	60.0	52.5	56.5	58.0	**	48.0	54.0[a]	51.0[a]	43.5	47.5[a]
Sales (%)	12.0	10.0	10.0	10.0	9.0	7.0	6.0	5.0	-	7.0
Gasoline*** (¢/litre)	10.8	9.9	9.8	9.0	12.9	8.0	8.0	-	-	8.01
Diesel Fuel (¢/litre)	12.5	11.0	9.7	9.7	11.25	9.3	9.2	-	-	8.45
Tobacco (¢/cigarette)	4.78	1.50	2.00	3.00	2.60	2.66	3.10	2.68	1.48	2.72
Corporation Income (%)										
° Small	10.0	10.0	10.0	9.0	3.0	10.0	10.0	10.0	5.0	8.0
° Large	16.0	10.0	15.0	15.0	5.5	15.0	16.0	16.0	11.0	16.0
Corporation Capital										
° Rate	-	-	-	-	0.45	0.3	0.2	0.3	-	0.2
° Exemption	-	-	-	-	nil	nil	$1M	$10M	-	$5M
Employer Health/Education Levy (% of Compensation Paid)										
° $15,000	-	-	-	-	3.0	4.76[b]	1.5	-	2.24[b]	2.56[b]
° $20,000	-	-	-	-	3.0	3.57[b]	1.5	-	1.68[b]	1.92[b]
Health/Medical Premiums ($/yr.)										
° Individuals	-	-	-	-	-	357	-	-	168	180
° Families	-	-	-	-	-	714	-	-	336	384

*Prince Edward Island and British Columbia are the only provinces to have presented 1985 Budgets at the time this table was prepared.

**The Quebec Personal Income Tax, which is levied directly against taxable income, is generally acknowledged to be the highest in Canada.

***The rate shown represents the general rate applicable to road use gasoline. Manitoba levies a surcharge of 0.9¢ per litre on leaded gasoline; Ontario, Quebec and New Brunswick levy higher rates on unleaded gasoline.

[a]These provinces impose surtaxes on higher income taxpayers.
[b]These provinces do not have employer levies per se. However, employers generally pay health/medical premiums on behalf of employees. The rates shown reflect family premium rates currently in effect.

Interprovincial Comparison of Major Levies

Appendix D:

THE CANADIAN ECONOMY AND FEDERAL-PROVINCIAL RELATIONS

Appendix D:

THE CANADIAN ECONOMY AND FEDERAL-PROVINCIAL RELATIONS

Table of Contents

Attracting and Encouraging New Investment	D 1
Summary of Income Tax Incentives and Preferences	D 11
Regional Economic Development Opportunities	D 14
Impact on Manitoba of New Federal Measures	D 23
Regional Impact of New Federal Policies	D 29
Federal-Provincial Fiscal Relations	D 32

Honourable Howard Pawley
Premier of Manitoba

ATTRACTING AND ENCOURAGING NEW INVESTMENT TO HELP CREATE JOBS

Notes for a Statement to the First Ministers' Conference on the Economy

Regina, Saskatchewan, February 14-15, 1985

INTRODUCTION

Prime Minister:

I want to begin by congratulating you on your agreement to hold this full-scale First Ministers' Conference on the Economy.

I want to join you and our colleagues in welcoming Premier Miller formally to this Conference.

I would also like to add my thanks to Premier Devine, his colleagues and officials, for their warm welcome, and to compliment them and the Secretariat staff for excellent conference arrangements.

The spirit all governments bring to this table presents a truly remarkable opportunity for our nation to begin again, co-operatively and constructively, to address major economic concerns and challenges.

For years, provinces like ours have been arguing—sometimes with hope, but more often with frustration and anger—that the economic problems facing Canada can't be resolved if the leaders of key sectors of our economy don't make a genuine effort to find common ground—and to direct their energies toward finding solutions instead of scapegoats.

And, we have said, if governments can't agree among themselves, how can we expect the private sector—business and labour—to see any promise in working together?

Now, here in Regina, we have a chance to start identifying the common ground—the policy goals and guidelines that we can agree on, and then build on, in the years to come.

I think we have chosen an agenda which will let us address some critical issues and, I hope, come to an agreement on priorities—and even some concrete action.

Although there's no doubt we will have some disagreements, I think our agenda lends itself to consensus-building. And, in our view, that is critical.

We believe consensus-building and confidence-building go hand in hand.

But, to build consensus—to build confidence among ordinary Canadians all across this country—the policy guidelines we agree on here must be **fair.**

We all want a national consensus for recovery and renewal.

But we must all recognize that it won't hold together—it won't work—it won't have widespread support—unless it is **fair**—fair to all provinces, large and small, east and west, and fair to ordinary Canadians, to women, and to native Canadians.

Simply put, we are here to try to help build a **fair consensus for Canada**.

If we can get agreement on that kind of approach, then we will have made a major step forward.

Of course, it will only be a first step.

Agreeing on principles is one thing. Applying them is another.

How we reflect the outcome of this Conference in our Budgets this spring will be one measure of our success. And there will be other tests.

THE ECONOMY

Unquestionably, unemployment is the number one economic and social problem facing our nation. Today, despite two years of economic recovery, 1.5 million Canadians are unemployed. That is 600,000 more than in 1980, before the recession.

The human cost of unemployment is unconscionable. Young people unable to find their first jobs...displaced workers whose jobs have disappeared during the recession...highly trained Canadians needing new skills...these are all reflections of the unemployment problem.

Unemployment in Canada is depriving hundreds of thousands of people of the opportunity to earn a stable income and contribute to their economic security.

It is wasting vast resources which could be channelled into production of reasonable housing and other commodities and services many of our people want and are forced to do without. Unemployment in Canada is leaving resources idle which could be directed towards the longer term development of our economy.

Unemployment is a national tragedy of immense proportions.

At current levels, it has been estimated that unemployment entails an annual loss in production likely in excess of $50 billion. And, during the last election campaign, the direct cost to the federal Treasury alone was estimated at about $10 billion.

So, Prime Minister, **the most important commitment we as First Ministers can make to Canadians is that the key objective of creating jobs and reducing unemployment will guide us in our deliberations on all the economic issues** on our agenda, commencing with "investment to help create jobs."

INVESTMENT TO HELP CREATE JOBS

Increased **productive** investment is central to Canada's economic performance over the longer term. It is a key element in securing sustained economic expansion and new job opportunities, improved competitiveness and the development of regional economic strengths. Worthwhile investment must serve the needs and aspirations of Canadians. We must recognize that investment is a means to an end and not an end in itself.

It is for that reason that our Government believes that some appropriate framework should be retained to assure that investments in Canada seek to create and preserve job opportunities.

The effort to attract capital to develop our economy should not allow the acquisition and shut-down of viable operations as has recently occurred in our province. That removes productive capacity from our economy and is an example of **dis**investment in our future. An open door to foreign capital can be a door through which jobs leave Canada if we are not careful to safeguard Canada's national interest and investment.

Our Government firmly believes that **productive** public investment as well as **productive** private investment has a vital contribution to make to our nation's future. The fact that public sector investment in Canada has traditionally accounted for about 30% of total investment underscores its importance.

In this respect, Canada has a unique history. Canada was forged as a nation by major public investments. Geography, climate, a sparse population...all combined to create demands for public leadership.

Our people today owe much to the public investments undertaken in decades past by confident governments with vision and faith in the future. Those investments helped secure the development of utilities including our national transportation, communications and energy systems, as well as our high quality social infrastructure including health, education, urban and recreational facilities and so on. **Those investments have added immeasurably to the quality of life in Canada and will continue to do so in years to come.**

In some cases, we need to change the regulations under which some of our major industries operate. But, change doesn't necessarily mean wholesale deregulation. We're concerned, for example, about what that could mean for airline transportation and telecommunications. We're not the United States. We have a unique structure which requires us to approach regulatory reform with care—as the Economic Council and others have advised.

Our history clearly demonstrates that we are not playing a "zero-sum" game. **Public investment does not squeeze out or discourage private investment. Instead, the stimulus provided by public initiatives is often a critical factor in securing private sector investment.** That has been our experience in Manitoba where we have concrete examples of private sector participation in and benefits from the initiatives of our Government.

The legacy of the severe national recession makes it natural to search for new solutions and new models for the period of rebuilding and reconstruction we must undertake. I believe we must be prudent and avoid turning too quickly to models which may have worked well in different circumstances but cannot be relied upon to strengthen our nation's economy. For example, the development of the American economy, with ten times our population concentrated on a similar sized land mass, has been accomplished with a very different mix of private and public activity.

Similar contrasts in the mix of private and public activity are also reflected in differences among regions in Canada. Canadians from all parts of our country must recognize the unique developmental needs of our regions. Achieving Canada's economic potential will continue to require commitment to appropriate public initiatives to build upon the strengths of the regions.

Certainly, there are measures which our governments can take to improve private investment prospects.

The first is to reduce high unemployment and use government fiscal capacity to strengthen the recovery of domestic demand in Canada. **Increased employment, incomes and demand for goods and services will contribute concretely to private investors' perception that markets will be available for expanded production**. With the current combination of weak market demand and punitively high interest rates, it is hardly surprising that the viability of many prospective investments has been called into question.

A further pulling back or downgrading of the importance of public activity will not contribute to Canada's investment prospects. Consumer and investor confidence cannot be rekindled by undercutting vital public initiatives and universal social programs. Inevitably, it is those least able to defend themselves who are hurt most by such cuts. That is simply unfair...and, it doesn't work.

Nor can confidence be rekindled by superficial and short-sighted cutbacks in worthwhile public investment which lead to even larger cuts in private investment. A concrete example is the federal government's announced cancellation of the Manufacturing Technology Institute in Winnipeg. For an apparent

federal saving of $20 million, some $300 million in private investment and over 1,600 jobs are put in jeopardy, along with a major opportunity for western manufacturers to access new technologies and improve their competitiveness. Also ignored are the positive impacts those investments and jobs would have on government finances.

And, confidence cannot be rekindled by proceeding with cutbacks in federal equalization support to disadvantaged regions which require greater, not less, federal support if current efforts to improve our regional economies are to be sustained.

Instead, **we must rebuild confidence based on fairness to all Canadians in every region.**

We must also recognize that large segments of our society have been unfairly denied full participation and fair rewards in our economy. Women, native Canadians and other groups are calling attention to their legitimate concerns and demanding an end to structures which have perpetuated their economic vulnerability. We must demonstrate that we hear their concerns and aspirations, and that we welcome the contributions they seek to make as an integral and important part of a fair national strategy for economic renewal.

One way of demonstrating our commitment would be to give our active support to our Ministers responsible for the Status of Women. In that context, I am advised that they have planned a federal-provincial conference to be held in Winnipeg in June of this year.

In that context, **I would now like to bring forward, and table, seven principles regarding women's economic equality**. They are:

- A co-ordinated national effort and commitment is required to achieve economic equality for women.
- Economic equality for women is beneficial to Canada, as well as to women.
- Women's issues are economic issues.
- Economic decisions must take into consideration the impact on women.
- Gender disparity should be approached in the same manner as regional disparity.
- Costs and benefits of economic development must be distributed fairly.
- Government has a responsibility and a clear mandate from the conclusions of the federal government's Abella Report to intervene to ensure women's economic equality.

I propose that the First Ministers take these principles back to their Ministers responsible for the Status of Women, who in turn could report on them at their Conference in June. I would also propose that the principles could then be placed on the agenda of the first First Ministers' Conference after the June Conference. This would represent the first step in our commitment to the greater integration of women's economic needs in policies and programs.

All of us at this Conference have witnessed the devastating effects of high interest rates on homeowners, farmers and small business operators. Real interest rates remain painfully high, both for consumers and investors. While most of the discussion in eastern financial circles concerns rebuilding or replenishing corporate balance sheets, I believe the problems facing farmers, the backbone of the western economy, and small business people throughout the country are far more serious. Those problems must also be addressed.

We would urge the federal government to reduce real interest rates as much as possible. Such action would provide a welcome stimulus and greatly enhance consumer and investor confidence.

The Manitoba Experience

In Manitoba, our Government has implemented a course of action emphasizing the protection and creation of job opportunities, stretching public resources to the maximum during economic difficulties, rebuilding confidence in a recessionary world and taking action to help homeowners, farmers and small business with excessive interest costs.

And our record of success in Manitoba is indeed encouraging. Virtually every indicator, ranging from employment to population growth and private sector investment, has recorded significant increases in the past two years. In 1983 and 1984, private investment in our province increased by about 13% per annum, while in Canada, private investment declined slightly.

Prime Minister, there are particular opportunities in virtually every region where public investment is obviously worthwhile. **In Manitoba, the construction of the Limestone Generating Station is a major opportunity. Employment and other benefits will extend well beyond provincial borders, and include improvements in Canada's balance of payments.**

We welcome your recognition of the important benefits such initiatives have for our country and your interest in finding appropriate ways in which federal action could support them. During our meeting in December, I suggested that one possible federal contribution would be in the area of financing. The benefits of federal financing could be quite attractive. Apart from other considerations, such federal participation would assure comparable borrowing costs for major projects across the country and help equalize our country's ability to undertake such projects regardless of region.

Such co-operation could help form the basis of a national investment strategy geared to building on the strengths of various regions.

Fiscal Flexibility

All governments share a common concern about our fiscal positions which inevitably reflect the immense costs of the recession, the high interest rate policies followed by the former federal government, and significant and unfair erosions in the tax base on which public services depend. I believe all of us are in agreement that operating deficits must be controlled as the economy strengthens. Most recognize the legitimate distinction between deficits incurred to carry on current programs and borrowings for capital purposes.

Most of us also recognize the economic effects which generally accompany significant discretionary changes in deficits. Last fall, the Canadian people elected a national government which promised that there would be no "drastic reduction" in the deficit until interest rates are lower and the "country gets back to work," and a national government which acknowledged that "massive cuts now would guarantee a recession."

We should all be able to agree that **the best way to restore fiscal flexibility is to put our people and industry back to work**. Or as you put it last March, Prime Minister, "The main way you reduce the deficit is by increasing the wealth of the country."

Our Province believes that to increase the wealth of the country, we must address both the immediate unemployment crisis and the longer term developmental requirements of the economy.

We will all have to achieve greater economies and efficiencies in the delivery of public programs. Our citizens are better served by a lean and effective public sector which allocates resources on the basis of carefully considered priorities. But, those priorities must reflect fair and equitable treatment of individuals. They must preserve the integrity of our nation's historical commitment to balanced regional development initiatives, including a strong national equalization program, geared to promoting stable and sustained economic activity across the country.

In this context, we should remember that the overall resources directed by governments in Canada are in line with the experience of other industrial countries. In 1981, immediately before the recession, the current disbursements of government in Canada totalled 36.5% of Gross Domestic Product, marginally greater than the 36.4% average for the seven major industrial nations. And, the share in Canada was much lower than in any of the major European countries.

In any event, the sharp difference in the relative size of government current spending in the two successful economies of Japan and Germany—27% and 45%, respectively, in 1982—illustrates the weakness of a case for either program and service cutbacks or major new programs based solely on size criteria. There is no evidence in international comparisons to suggest that a smaller size public sector leads to a more successful country.

However, **there is a compelling case for a comprehensive review of the Canadian income tax system to restore fairness in taxation based on ability to pay and to help restore fiscal flexibility**.

In overall terms, the federal Auditor General recently estimated that the cost of the various tax preferences and incentives in the tax system may be as high as $50 billion annually in federal revenues alone. That is equivalent to 50¢ in tax benefits for each dollar in direct federal spending. That $50 billion is also greater than the entire federal proceeds from personal and corporation income taxes. It is appreciably higher than the federal financial requirements last year. And, as the federal Auditor General pointed out, tax expenditures are rarely, if ever, subject to any meaningful review or scrutiny.

The November 8, 1984, federal agenda paper, "A New Direction for Canada," pointed out that corporate income tax preferences have reduced the effective federal corporation income tax rate from 36% to 15% of profits. And, many profitable corporations have such storehouses of tax write-offs that they are unlikely to pay any income tax under current rules for years to come.

Individual income tax incentives and preferences have steadily eroded the tax base since the 1972 general tax reforms, and generally, those provisions have benefitted higher income Canadians to the point where Revenue Canada advises that over 8,000 Canadians with incomes over $50,000 paid no income tax in 1981.

Of course, that was before Scientific Research Tax Credits and "quick flip" arrangements permitted tens of thousands of other Canadians to avoid their entire federal and provincial income taxes. Scientific research is important, but so too are the basic services that fair and equitable income taxes are intended to finance.

As the Carter Commission noted in 1966:

> The first and most essential purpose of taxation is to share the burden of the state fairly among all individuals and families. Unless the allocation of the burden is generally accepted as fair, the social and political fabric of a country is weakened and can be destroyed. History has many examples of the severe consequences of unfair taxation. Should the burden be thought to be shared inequitably, taxpayers will seek means to evade their taxes. When honesty is dismissed as stupidity, self-assessment by taxpayers would be impossible and the cost of enforcement high.

Unfortunately, the confidence of Canadians in the basic fairness of the tax system is being undermined by the myriad of preferential and special provisions. Worthwhile resources which could be used much more effectively are being wasted in more intensive efforts to beat a loophole-ridden tax system.

And, while well-to-do Canadians and profitable corporations are avoiding taxes, leaving ordinary working women and men to pay the bills, the resulting deficits are being used as justification for attacks on public programs and services.

Of course, there is a better way and a fairer way.

Prime Minister, during the election campaign, you supported the principle of a minimum tax for the rich in Canada. Surely, it makes equal sense to have a minimum tax on profitable corporations as well. I trust that such provisions will be included in the 1985 federal Budget.

Minimum tax provisions are, of course, only immediate emergency measures. Comprehensive reform leading to a simpler and fairer tax system is also required. Such a system would, in our view, be in the best interests of all Canadians.

As a first step on the path towards tax reform and as tangible evidence of a collective commitment by First Ministers to the restoration of a fair income tax system, we would urge the convening of a National Tax Conference this spring to include business, labour, farmers and other Canadians. Such a tax reform Conference would provide a forum for Canadians to bring forward their concerns on this vital issue.

CONCLUSION

In conclusion, our decisions this week can do much to shape Canada's future in the remainder of this decade and beyond.

Our decisions must be fair, fair to ordinary Canadians, fair to working women and men, fair to the employed and the unemployed and fair to youth and future generations.

The approach I have outlined today is fully consistent with our commitment to fairness. Key elements include:

- a firm commitment to job creation to ensure fair and equitable job opportunities for all;
- a strong affirmation of the value of worthwhile public investment as well as worthwhile private investment;
- recognition of the important contribution sustained public initiatives make to the quality of life, the economy and to private investment prospects;
- commitment to support the legitimate aspirations of women to participate fully in, and share the rewards of our economy;
- agreement to reduce real interest rates;
- agreement to help farmers and small business operators cope with the legacy of high interest rates;
- fair national support for public services throughout all regions and provinces; and
- a commitment to tax reform.

Consensus on these and similar points would be a major achievement at this Conference and a major step forward for Canadians.

Agreement on a fair consensus for economic renewal, would give Canadians a welcome Valentine's Day message, and hope for "Bread and not just Roses."

SUMMARY OF MAJOR INCOME TAX ACT INCENTIVES AND PREFERENCES 1972-1984

Compiled by the Manitoba Department of Finance

February, 1985

1972
- Introduction of two-year write-off for installation of water and air pollution control devices.
- Manufacturing and Processing Corporate Income Tax rate reduced to 40%, small business Manufacturing and Processing rate reduced from 25% to 20%.
- Fast write-off for manufacturing and processing equipment introduced.

1973
- Indexing of personal exemptions and rates introduced, to take effect in 1974.

1974
- Indefinite extension of two-year write-off for new machinery and equipment in manufacturing and processing.
- Registered Home Ownership Savings Plan introduced.
- Interest Income Deduction (maximum $1,000) introduced.
- Annual limit for small business corporate income tax rate increased from $50,000 to $100,000 and cumulative deduction limit increased from $400,000 to $500,000.
- Deduction of spousal RRSP contributions introduced.
- 100% write-off for petroleum and mineral exploration introduced.
- Multi-Unit Residential Building provisions introduced.
- Interest Income Deduction broadened to include Canadian dividend income.

1975
- 100% write-off for certified Canadian feature films introduced.
- Five per cent investment tax credit for investment in new buildings or machinery and equipment in manufacturing and processing industry and certain resource sectors introduced.

1976
- Two-year fast write-off introduced in energy-conserving equipment; removal of federal sales tax from same.
- Accelerated write-offs introduced for computer hardware and software.
- Annual limit for small business corporate income tax rate increased from $100,000 to $150,000 and cumulative deduction limit increased from $500,000 to $750,000.
- Registered Retirement Savings Plan maximum deduction raised from $2,500 to $3,500 and from $4,000 to $5,500 for persons not belonging to pension plan.

1977
- Investment Tax Credit broadened to include expenditures on scientific research. Basic rate remains at 5%. Credit rate increased to 7½% for Saskatchewan, Manitoba, Northern Ontario and other designated areas; increased to 10% for Atlantic Provinces and Gaspé region.
- Additional earned depletion entitlement of 66 2/3% introduced on frontier and offshore drilling funds.
- Deduction of 3% of opening value of inventories introduced for businesses.
- Annual capital loss deduction allowable increased from $1,000 to $2,000.

1978
- Investment Tax Credit extended indefinitely. Basic rate increased from 5% to 7%, regional preferential rates increased from 7½% to 10%, and from 10% to 20%.
- Investment Tax Credit basic rate for Research and Development increased from 5% to 10%; preferential rates for Atlantic Canada and the Gaspé increased from 10% to 25% for small businesses.
- Annual write-off rate for development expenditures in mining increased from 30% to 100%.
- Two-year write-off for pollution control equipment extended indefinitely.
- Drilling Fund provisions extended to end of 1981.
- Multi-Unit Residential Building tax shelter extended one year.
- Employment Tax Credit introduced.
- Additional 50% deduction of amount by which annual expenditures on Scientific Research exceed average of previous three-year period.

1980
- Provision allowing write-off of exploration expenses by individuals and non-resource corporations extended indefinitely.
- Small business development bond provision introduced for one year.
- Additional capital cost allowances provided for railways.
- Multi-Unit Residential Building provisions reintroduced.
- Investment Tax Credit of 50% introduced for designated high-unemployment areas.

1981
- Marginal tax rates for higher income individuals reduced.
- Small business development bond provisions extended one year.
- Annual limit for small business corporate income tax rate increased from $150,000 to $200,000 and small business cumulative deduction limit increased from $750,000 to $1 million.

1982
- Canadians investing funds in the form of common shares in Canadian corporations to be taxed on income after inflation has been netted out.
- Small business development bond assistance extended to December 31, 1983.

1983
- Registered Home Ownership Savings Plan temporarily modified to allow for "top-up" of annual contributions where below lifetime maximum.
- Extended time for carry-forward/back of business and capital losses introduced.

- "Special recovery" refundable tax credit introduced.
- "Special recovery" share-purchase tax credit introduced.
- Investment Tax Credit extended to heavy construction.
- R and D tax credits enhanced from 10% to 20% with small businesses eligible for credit of 35% of R and D expenses.
- Scientific Research tax credit allowed to flow-through to investors ("quick flip" provisions).
- Incremental oil revenue tax suspended for one year.
- Flow-through deduction of earned depletion for mining exploration to individual investors introduced.

1984

- Small business corporate tax rate extended to any Canadian-controlled private corporation.
- Tax rate for professionals and certain service corporations reduced from 33 1/3% to 25%.
- Suspension of Incremental Oil Revenue Tax extended.

Honourable Howard Pawley
Premier of Manitoba

REGIONAL ECONOMIC DEVELOPMENT OPPORTUNITIES BASED ON THE STRENGTHS OF EACH REGION

Notes for a Statement to the First Ministers' Conference on the Economy

Regina, Saskatchewan, February 14-15, 1985

INTRODUCTION

Prime Minister:

Regional Development is, in many ways, the most important item on our agenda.

It may also be the most difficult.

I think we all realize that the way we deal with this issue—here, and in the months ahead—will play a large part in determining whether we can achieve—and sustain—the kind of cooperative, coordinated policies we all want.

As we begin these discussions, I think it may be useful to recall how significant public policies—both federal and provincial—have been to shaping the Canadian economy, and to determining how our provinces and regions have developed over the last century.

Of course, market forces—both international and domestic—have played a major part—but, in many ways, those forces have been shaped and influenced by national policies—tariff policies, transportation policies, taxation and other fiscal policies, agricultural policies, energy policies, and so on.

Put another way, **governments must bear significant responsibility for the fact that there are still dramatic and unacceptable disparities in this country.**

There are countless examples of these disparities.

The differences in income and employment, for example, were well-documented in the federal government's "New Direction" document released on November 8.

And, we all know about the wide range in unemployment rates across the country. Unemployment in some regions is more than twice as high as it is in others.

There is a similar pattern, too, in some of our budgetary figures. Often, the smaller and less wealthy provinces have to apply higher-than-average taxes to

help support basic services—services which can sometimes cost more to provide, on average, than in larger provinces because of "economies of scale."

At the same time, Canada **has** made great strides in sharing the benefits of uneven economic growth.

Key national programs such as Medicare, Old Age Security, the Canada Assistance Plan, Family Allowances, Unemployment Insurance and the Canada Pension Plan, are obvious and important examples.

And, perhaps the most important of all, is the National Equalization Program. **We think the current equalization formula badly needs improvement, but the existence of a formal equalization system is critical to Confederation.**

In our view, these programs have done more for national unity—and more to alleviate regional disparities—than a great many special, targetted development incentives.

REGIONAL DEVELOPMENT POLICY GUIDELINES

Special development assistance programs are needed too—and badly needed—but there is a limit to what they can achieve, especially if other national policies run counter to them—accidentally or otherwise.

That's why we have argued that:

- regional economic development has to be recognized as a **first-order national priority**, and that
- **all** national policies should be judged, at least in part, on whether or not they contribute to the goals of **fair and balanced regional development**.

Those are fundamentally important policy principles which Manitoba put forward at the recent conference of Ministers responsible for Regional Economic Development.

We are encouraged by the general support those principles seem to have received as key national policy guidelines for the future.

Still, we are under no illusions about the difficulty of implementing those principles.

There are some, for example, who still argue that the objectives of economic equity and economic efficiency can't be pursued at the same time. We believe that argument has to be rejected.

In effect, by endorsing the goal of fair and balanced regional development, we are affirming our belief that every region and every province has an important contribution to make to national economic renewal.

And, by implication, we are also rejecting the simplistic notion that fair and balanced regional growth is going to occur on its own.

The private sector can—and should—be encouraged to play a stronger role in regional development efforts, but governments—both federal and provincial—must continue to play a strong part, too.

That doesn't mean we have to use all the same policy instruments as in the past. Obviously, some of them are worth retaining, while others should be changed. And, we have to ensure that our overall efforts are more closely co-ordinated than they have been in the past.

IMPROVING EXISTING REGIONAL DEVELOPMENT PROGRAMS

For this reason, we are encouraged by the new federal government's support for the Economic and Regional Development Agreements which have now been signed with all ten provincial governments. The ERDA approach was designed to ensure far greater sensitivity to regional development concerns across a broad range of federal and provincial departments and agencies. And, up to now at least, the results have been positive.

Manitoba was the first province to sign an ERDA, in November of 1983, and while we have experienced some normal start-up problems, we are generally satisfied with the approach and want to see it expanded.

For us, the ERDA approach was welcome, because it complemented our own strategy—under the Manitoba Jobs Fund—of emphasizing medium and longer term economic development in a variety of key sectors.

We also see the ERDA system complementing our efforts to maximize, for our province and others, the substantial economic benefits which will result from the resumption of hydro-electric development in northern Manitoba, with the construction of the Limestone Generating Station. We have been consulting closely with the private sector and the federal government on several key aspects of the project and I believe there have been discussions with some other provincial governments as well. We expect these contacts will increase as the project proceeds further.

We were also encouraged by the recent, tentative agreement among our Ministers responsible for Regional Development to meet frequently over the next year or longer—perhaps as often as every two months—to review options for improving the programs they administer. We fully support that proposal. I think we should ask for regular progress reports, and plan to have this item on our agenda for our next full-scale conference, to emphasize the importance we attach to their work.

We also agree that one of the key priorities for their review should be the Industrial and Regional Development Program—the IRDP.

In principle at least, we strongly support the suggestion that provinces be permitted a larger voice in decisions concerning development assistance.

And, we continue to support the idea of differential levels of federal assistance for various provinces and regions. But, we have felt, from the beginning, that the formula used to calculate those differentials under the IRDP has been unsatisfactory, to say the least.

It was implemented without adequate consultation and it has resulted in some serious anomalies, such as the inclusion of much of Northern Manitoba, as well as large portions of the rest of our province, in the same assistance category as Metropolitan Toronto. And now, of course, much of the assistance to that category—the so-called "Tier One"—has been all but eliminated.

I hope it will be possible to come to an early agreement on regional development assistance measures which are more sensitive to regional differences and, probably, more selective in their application. While it is important to have clearly-understood and fairly-applied assistance guidelines, it is also true that there has been too much "automatic" support for investment that would have occurred in any case.

TAX INCENTIVES

On this point, I would like to raise some general concerns about the possibility of placing a too-heavy reliance on the tax system as a mechanism for delivering such assistance.

While there could be some advantages in making greater use of the tax system, there are also strong reasons for caution.

First, tax incentives can be difficult to target in a selective way. The recent experience with the SRTC—the Scientific Research Tax Credit—is just one example.

Perhaps of greater concern, though, has been the tendency of national tax incentive measures to favour larger, well-established corporations—most of which, of course, are based in central Canada—over smaller and newer enterprises—the kinds of businesses which our province and others see as key sources of growth in the years ahead.

Securing adequate financing has been a long-standing problem for small business across the country, but especially, I think it is fair to say, in the West and in the Atlantic region. Though we don't have a great deal of information on the federal review of business assistance which we understand is being carried out under a ministerial committee being chaired by the Deputy Prime Minister, we would welcome consultations on their findings thus far, and on our concerns, as well.

GENERAL FEDERAL EXPENDITURES

As I noted earlier, the distribution of federal expenditures across the country has a major impact on provincial and regional economies. I am referring

not only to expenditures for "economic development" programs, but also to transfer payments and the entire spectrum of federal program activity.

We have already made it clear that we feel the expenditure cuts which were announced on November 8 had a higher-than-average impact on Manitoba.

A related concern, which arose well before the new federal government took office, is the general lack of comprehensive statistical information on the regional and provincial impacts of federal economic development programming. One obvious example was the difficulty in obtaining information last year on the distribution of federal employment creation expenditures. However, the problem has been much more broad, and I know most provinces voiced concern about it during the ERDA negotiations. It goes without saying that the climate of trust and confidence among our governments would be strengthened if comprehensive, comparative information were more readily available on federal economic development expenditures and other related activities across the country.

Let me cite one concrete example of data problems from our own experience in Manitoba. There is a widespread impression that, over the last year or two, our province has been the beneficiary of a massive infusion of federal support. In fact, that impression is now being used as a rationale for some of the recent federal cutbacks which have been announced. The fact is, Manitoba **has** benefitted, to some degree, from stepped-up federal support, but aggregate federal investment statistics for all provinces show, as I said earlier, that our share of **total** federal investment across Canada has actually been **declining.**

Federal Government Investment

($ millions)

	In Manitoba	In Canada	Share in Manitoba %
1976	119.5	2,130.9	5.6
1977	124.0	2,132.4	5.8
1978	119.7	2,164.7	5.5
1979	130.5	2,260.4	5.8
1980	136.7	2,760.1	5.0
1981	152.1	3,716.2	4.1
1982	159.9	3,988.0	4.0
1983*	173.6	4,897.7	3.5
1984**	240.7	5,832.5	4.1

*Preliminary Actual
**Revised Intentions

Source: Statistics Canada, Unpublished Data.

That was indicated by our own preliminary analysis, and we have yet to see evidence to cause us to doubt that analysis.

Among the main cuts were the National Research Council's Institute for Manufacturing Technology, the NRC's high altitude research in Gimli and Churchill, and the proposed Via Rail maintenance facility. In this connection, I very much appreciated your undertaking to review these decisions, Prime Minister, and I know there have been some recent positive follow-up discussions between our two Ministers responsible for Science and Technology.

Special Recovery Capital Projects
($ millions)

	Initial Allocation	de Cotret Cuts	Allocation after de Cotret Cuts
Manitoba	70.7	23.0	47.7
Canada Total	2,452.9	31.9	2,421.0
Manitoba Share	2.9%	72%	1.97%

Source:
- *Special Recovery Capital Projects Program — The First Year — Honourable D. Johnston, May, 1984.*
- *Expenditure and Program Review, Honourable R. de Cotret, November, 1984.*

Similarly, I appreciated your willingness, Prime Minister, to meet with me before Christmas to discuss our concern about the prospect of a $72 Million cut in equalization payments for Manitoba for the fiscal year which starts April 1.

Again, there have been some follow-up discussions between our Ministers of Finance and I hope we may have some positive news on that issue soon as well.

Our equalization system has often been called the "cornerstone" of Confederation — a unique and explicit set of arrangements for ensuring that the costs and benefits associated with the Canadian economy are shared more fairly across the country.

It's worth recalling that it was the Rowell-Sirois Commission, in its proposals for "regional adjustment grants," which called national attention to the need for equalization, and the principle of equalization is now enshrined in the Constitution — appropriately enough, in Section 36, alongside our collective commitment to regional development.

As I said earlier, Manitoba believes that the current equalization formula needs major revisions, and I think this view is also shared by several other provinces. We may well want to address the equalization question and the overall fiscal arrangements at our next full-scale conference, and possibly the one which follows, as well.

In this connection, it is worth recalling a key principle which I believe all provinces are on record as supporting—namely, that **there is nothing to be gained for Canadian taxpayers through measures which simply shift costs, or deficit burdens, from one level or order of government to another.**

There is no doubt that federal and provincial programming can be made more effective, and that we should be working more closely together to reduce duplication and to make the best use of our scarce resources. But, we would not want to see efforts to harmonize programs, or such concepts as "respect for jurisdiction" become rationales for off-loading costs from one jurisdiction to another.

All of us are facing changing priorities and unmet needs—many of them critical.

The expanding demand for child care services is a good example. Some have said this is a "social issue." In fact, we all know it is an economic issue. It relates directly to our efforts to ensure economic equality for women. Here, there is a clear need for federal-provincial co-operation in program expansion and, we believe, a stronger federal financial commitment.

I am raising this issue here because it does have a significant regional dimension. As I said earlier all provinces are **not** equal in their ability to finance needed services. For that reason, **we have proposed a National Day Care Act which would involve differential federal cost sharing across the country.**

That's a concept which has been used before—in the old DREE agreements, for example—and it was also discussed widely a few years ago as a way of improving the medicare system. In this latter connection, we know that there are regional demographic differences which affect program needs across the country. Manitoba and Saskatchewan, for example, have among the highest proportions of elderly and Native residents, and these factors have a direct impact on the demand for health services in our provinces. We believe these kinds of regional differences should be taken into account as our governments work together to improve programming across the country.

INTERPROVINCIAL ECONOMIC DEVELOPMENT COMPETITION

Before concluding, I would like to turn to another issue of major importance to all of us—the growing problem of interprovincial economic competition.

Again, I am pleased to note that our Ministers are suggesting we endorse, as a policy principle, that:

> Governments should explore opportunities for increasing interregional trade and eliminating barriers between provinces.

My own sense of our discussions over the last several months—at the Premiers' Conference in Charlottetown, and at our meeting at Meech Lake in November—is that we may now be in a better position than in any time in recent years to deal with this issue in a constructive way.

I think there is a political will to do so, and an understanding that it is absolutely necessary.

Our recognition that regional development is a shared responsibility and must be pursued in a true partnership implies far greater co-operation than has been the practice in the past.

Of course, the issue of interprovincial competition has been debated at length at the First Ministers' level and elsewhere.

I am referring not only to competition in the form of direct investment incentives, but also to tax competition and a broad range of other pro-active instruments to encourage provincial economic growth.

Some have argued that, in the interests of the Canadian "economic union," virtually all impediments to the free movement of goods, services, labour and capital should be removed.

Others have argued that to do so would simply mean a perpetuation of the status quo—the concentration of industry in central Canada, and growing disparities across the country.

There are arguments to be made on both sides.

But, as we have said time and again, surely there must be agreement that the current situation is unacceptable—that many of our competitive efforts are counter-productive and wasteful, and bring little or no measureable benefit to the individual provinces which are responsible for them, much less to Canada as a whole.

Again, I welcome the indication that we will soon begin to address this issue directly.

Just as improved federal-provincial co-operation is essential for regional development, the same is true of interprovincial co-operation and policy harmonization.

CONCLUSION

Prime Minister, on the day after your election victory in early September, I sent you a congratulatory message on behalf of the Manitoba Government which included these words:

> You and your new administration will take office with a strong and truly national mandate, marked by significant representation from all provinces and regions.
>
> Your new responsibilities will be extremely heavy, but you will also have a unique opportunity to work toward reconciling regional differences, correcting regional disparities and developing national policies with effective input from across the country, and with impacts which are fair to all provinces.

Then, in early November, I was encouraged to see some similar words appear in the Speech from the Throne, and to see your administration emphasize the need for a national consensus on how to share both the benefits of economic growth and the burdens of economic adjustment.

We all agree on the importance of building on our strengths. And we all agree that every province and every region can and must make a major contribution to economic renewal.

The challenge for all of us now is to demonstrate that we can make co-operation work—in a fair and balanced way—to the advantage of all Canadians, no matter where they may live in this country.

Manitoba Department of Finance

THE IMPACT ON MANITOBA OF THE CUTBACKS AND OTHER MEASURES ANNOUNCED ON NOVEMBER 8, 1984 BY THE GOVERNMENT OF CANADA

A Preliminary Analysis Compiled from Estimates Prepared by Manitoba Government Departments

November 27, 1984

BACKGROUND

On November 8, 1984, the federal Minister of Finance tabled in the House of Commons, on behalf of the President of the Treasury Board, a statement entitled *Expenditure and Program Review—November, 1984*.

That statement summarized a broad range of federal expenditure reductions and other measures totalling –$4.2 billion for the 1985/86 fiscal year. Of that total, measures described as "Program Adjustments," including expenditure cuts and revenue increases, accounted for –$2.9 billion, while other adjustments accounted for the balance of –$1.3 billion. A table summarizing the changes appeared in the *Expenditure and Program Review* document and is reproduced in this report as **Table 1**.

The Impact of the November 8 Adjustments on Manitoba

The federal *Expenditure and Program Review* statement contained the following general comments on the regional impacts of the expenditure reductions and other measures.

> Regional and sectoral balance in expenditure reductions has also been important. Clearly some programs or projects impact more on some areas of the country or some sectors of the economy than on others. In selecting which reductions to pursue, every attempt has been made to try to balance the total impact of the program. Obviously, perfect balance is unattainable, but the measures have been chosen so as to ensure a fair sharing of the burden of restoring the Government of Canada's financial health.
>
> —Hon. R. R. de Cotret *Expenditure and Program Review—November, 1984*, page 3.

Preliminary analysis by the Government of Manitoba suggests, however, that the relative burden of the expenditure reductions and other measures on the Province of Manitoba will be substantially greater than the average for all provinces combined.

Table 2 summarizes the impact on Manitoba of the changes announced in each of the seven "Program Adjustment" categories (Annexes) included in the federal *Expenditure and Program Review*. It contains brief explanatory notes on some of the main programs and other measures covered in the general categories.

It should be noted that the information in **Table 2** is not considered, at this stage, to be complete or "definitive." The analysis is based on Provincial Government Departments' first estimates of the impact of the changes, which, in turn, were based on limited, published information in the November 8 *Expenditure and Program Review*. In some cases, estimates of the possible impact of certain adjustments have been omitted in this analysis because of inadequate information. Thus, subsequent updating of this analysis may—and probably will—indicate a larger impact on Manitoba.

As the federal government has acknowledged, the provinces were not consulted in advance on the November 8 announcements. Since November 8, some limited additional information has been provided by individual federal Ministries, but no overall summary of the impact of the changes on a province-by-province basis has been made available by the Government of Canada as yet.

Table 1

Overview of Federal Cutbacks and Adjustments
Hon. R. de Cotret, November, 1984

Budgetary	**1985-86 ($ millions)**
Program Expenditure Adjustments (details in Annexes A to E)	2,187
Increases in Revenue (details in Annexes F and G)	732
Sub-Total, Program Adjustments	2,919
Reduction in Overhead Expenditures and General Restraint (details in Table 3)	700
Total, Budgetary Adjustments	3,619
Non-Budgetary	
Reduction in Loans and Investments to Crown Corporations	625
TOTAL	4,244

Source: Reproduced from Table 2, page 7 of Expenditure and Program Review—November, 1984

Table 2

Summary: Federal Expenditure and Program Review

Hon. R. de Cotret, November, 1984

Summary—Annexes A-G	Cross-Canada Total Cost ($ millions)	Effect on Manitoba ($000's)	Manitoba's Share (%)	Manitoba Jobs Lost (Direct and Indirect) Total
ANNEX A—Reductions in Program Spending	521.0	53,009*	10.2	2,990
ANNEX B—More Rigorous Management of Programs	418.0	12,483	3.0	N/A
ANNEX C—Elimination of Programs	386.4	24,447	6.3	63
ANNEX D—Cancellations and Deferrals	136.8	25,986	19.0	1,775
ANNEX E—External Aid and Defence	N/A	N/A	N/A	N/A
ANNEX F—Cost Recovery Programs	192.7	8,750	4.5	N/A
ANNEX G—Increased Revenue Generation	440.0	18,480	4.2	N/A
TOTAL WHICH CAN BE ALLOCATED BY PROVINCE	**2,094.9**	**143,155**	**6.8**	**4,828****

Note: Above allocation excludes:

ANNEX A—Petroleum Incentive Payments $250 million tied to lower than expected exploration levels.

ANNEX D—Deferrals totalling $141 million which are much different in impact than cancellations.

ANNEX E—All External Aid and Defence ($334 million) which resulted from lower than expected Gross National Product estimates.

ANNEX G—$99 million in Tax Audits of Non-Residents, accelerated Sales of Surplus Equipment and CN subsidy Overpayment Recovery.

*Assumes VIA Rail Centre not in Manitoba.

**Manitoba Jobs Lost Total excludes the more than 1,400 in jobs lost associated with the $51 million additional outflow from Manitoba under the Petroleum Compensation Charge increase and some 2,900 summer jobs lost under Summer Canada.

Supplementary Table

Detail: Federal Expenditure and Program Review

Hon. R. de Cotret, November, 1984

"REDUCTIONS IN THE LEVEL OF PROGRAM SPENDING"

ANNEX A: *pages A.1-A.6*

This category includes reductions in federal industrial incentives, VIA Rail, certain housing programs, etc.

Total Federal Adjustments (across Canada)	$771 million
Less Petroleum Incentive Program	250 million
Net Federal Cuts	521 million
Estimated Impact on Manitoba	
Cost to Province	**$53 million**
Manitoba's % Share	**10.2 %**
Manitoba Jobs Lost (Direct and Indirect)	**2,990**

Notes: Manitoba cost estimate includes VIA Rail Centre.

$250 million in Petroleum Incentive Program excluded from totals as it is related to lower than anticipated expenditures rather than a policy change.

"MORE RIGOROUS MANAGEMENT OF PROGRAMS"

ANNEX B: *pages B.1-B.7*

This category includes reductions in federal agricultural programs, cultural projects, unemployment insurance, ferry services, etc.

Total Federal Adjustments (across Canada)	$418 million
Estimated Impact on Manitoba	
Cost to Province	**$12.5 million**
Manitoba's % Share	**3.0%**

Supplementary Table (continued)

"ELIMINATION OF PROGRAMS"
ANNEX C: *pages C.1-C.4*

This category includes elimination of federal programs such as Summer Canada, Industrial Training, Canadian Home Insulation, Canertech.

Total Federal Adjustments (across Canada)	$386.4 million
Estimated Impact on Manitoba	
Cost to Province	**$24.4 million**
Manitoba's % Share	**6.3%**
Manitoba Jobs Lost (Direct and Indirect)	**63**

"DEFERRAL/CANCELLATION OF CAPITAL PROJECTS"
ANNEX D: *pages D.1-D.5*

This category includes cancellation of such projects as the Institute for Manufacturing Technology in Winnipeg, along with capital spending cuts through Parks Canada, Transport, and deferrals of such projects as the Washington Embassy.

Total Federal Adjustments (across Canada)	$277.8 million
Less: Deferrals	141.0 million
Net Federal Cuts	$136.8 million
Estimated Impact on Manitoba	
Cost to Province	**$26.0 million**
Manitoba's % Share	**19.0 %**
Manitoba Jobs Lost (Direct and Indirect)	**1,775**

Note: In addition to the above cost, some $300 million in private investment in Manitoba is viewed as contingent on the Manufacturing Technology Institute.

Supplementary Table (continued)

"EXTERNAL AID AND DEFENCE"
ANNEX E: *page E.1*

This category includes official development assistance and national defence.

Total Federal Adjustments	$334 million

Note: These "adjustments" result from reduced estimates of Gross National Product which, in turn, affect Canada's official development assistance and defence spending, both of which involve commitments as a percent of GNP. Accordingly, since they do not reflect a policy change, they were not included in the present analysis.

"COST RECOVERY"
ANNEX F: *pages F.1-F.5*

This category includes increased charges for food inspections, parks, social insurance cards, parking at airports, etc., and air transportation and cargo taxes.

Total Federal Adjustments (across Canada)	$192.7 million
Estimated Impact on Manitoba	
Cost to Province	**$8.8 million**
Manitoba's % Share	**4.5%**

"INCREASED REVENUE GENERATION"
ANNEX G: *pages G.1-G.2*

This category includes "improved" debt collection, primarily Revenue Canada, as well as tax audits on non-residents, surplus property sales and recovery of CN subsidy overpayment.

Total Federal Adjustments (across Canada)	$539.0 million
Less: Surplus Property Sales, Non-Resident Tax Audits, and Overpaid Subsidy Recovery	99.0 million
Net Federal Cuts	$440.0 million
Estimated Impact on Manitoba	
Cost to Taxpayers	**$18.5 million**
Manitoba's % Share	**4.2%**

Honourable Vic Schroeder
Manitoba Minister of Finance

REGIONAL IMPACT OF NEW FEDERAL POLICIES

Notes for a Meeting with Honourable Michael Wilson Minister of Finance, Government of Canada

Winnipeg, Manitoba, November 26, 1984

INTRODUCTION

Manitobans have a sense of pride in the **relative** success with which our Province weathered the recession and started on the path towards sustained recovery.

We have emphasized measures to help sustain our economy, improve longer-term potential and create jobs both now and in the future. The balanced and diversified provincial economy has been a key factor in success to date as has the leadership shown by our Government.

Despite Manitoba's less severe downturn and earlier investment recovery, a substantial 8% gap still exists between real output per Manitoban and national per capita output. And unemployment remains unacceptably high.

At a minimum then, existing efforts to rebuild our economy and create meaningful and productive job opportunities must be continued.

FEDERAL TRANSFERS

Federal support is extremely important to Manitoba. Federal transfers account for about 36% of our revenue today, significantly lower than the 43% five years ago, but nonetheless substantial.

I am concerned that any further erosion in federal support would make it extremely difficult, if not impossible, for our Government to maintain existing initiatives to foster economic renewal.

It is in this context that Premier Pawley has referred to resolution of the threatened cut of $72 million in equalization support to Manitoba next year as our most pressing immediate economic problem. I can understand that your Government may not yet have had an opportunity to review that problem. But, I would like to underscore its major importance to Manitoba.

As indicated in my letter to you, we believe an appropriate remedy to this problem would provide some growth in our equalization support, consistent

with our increasing needs, even as measured under the new formula. We believe that would be an interim solution which would provide the time needed for a more thorough review of equalization.

As well, like other provinces, we remain concerned that federal support for health and post-secondary education, in relation to program cost, has fallen from 54% to 43% over the last five years.

CONCERNS ABOUT NOVEMBER 8 FEDERAL ANNOUNCEMENTS

Our respective governments are in agreement on the important contribution co-operative federal-provincial relations can make to a healthy and vibrant economy. For that reason I was pleased at your stated intention to undertake extensive consultations with all the provinces.

In your efforts to deal with the federal deficit, I would recommend that you examine the income tax system. In my view, there is considerable potential for revenue improvements through review and elimination of various loopholes and incentives, the proliferation of which has contributed to high income Canadians and corporations benefitting from lower effective tax rates today than in 1972.

I am encouraged by your initiatives to date; the cancellation of the "quick flip" feature in the SRTC, and the moratorium on advance rulings on limited partnerships created to flow-through unused corporate tax preferences.

Our Government is still receiving and reviewing the results of preliminary examinations by provincial departments of the various announcements made on November 8.

We were pleased with the extensions to the spouses' allowance program and improvements to veterans' pensions. Our farmers will benefit from the partial rebate of the federal sales tax on farm fuels. Unfortunately, however, much of this benefit will disappear with the implementation of a world oil-pricing regime.

We are extremely concerned that many of the announcements apparently involve severe job losses in Manitoba. As you know, Manitoba is struggling to maintain employment levels at the present time. Our initial review suggests that federal cuts involve significant investment and job losses. The losses associated with the cuts include:

- the announced cut in Industrial Incentives estimated to involve $16 million in federal support for Manitoba, $75 million in private investment, and the loss of 1,500 direct jobs and 1,200 indirect jobs;

- the announced cancellation of the National Manufacturing Technology Institute estimated to involve $23 million in federal support, and 175 direct jobs. Some $300 million in private investment in Manitoba along with 1,600 jobs, is said to depend on the Institute. And its cancellation would have significant effects on the rest of the country;

- the possible cancellation of the VIA Rail maintenance centre in Winnipeg involving $28 million and about 200 direct jobs;
- Canertech, 13 jobs;
- Rocket and Balloon facilities at Churchill and Gimli, 50 jobs;
- Summer Canada, over 2,000 summer jobs;
- the increased Petroleum Compensation charge involving an additional $51 million outflow of tax dollars from Manitoba and a loss of over 1,400 jobs.

The totals on this abbreviated list come to over 4,000 permanent jobs and in addition, more than 2,000 summer jobs. These totals do not include the 1,600 jobs linked to potential investment plans associated with the Technology Institute. I am sure you can appreciate my concern.

Like all other Canadians, Manitobans would like to start off the new year under new federal leadership optimistic that new job opportunities will be available. However, we are concerned that along with the economic slowdown which is predicted for next year, any job losses resulting from federal actions could deal a further blow to confidence in sustained growth and investment recovery. So, any positive news you may have on the likely effects of your Economic Statement on business investment and jobs in Manitoba would be warmly welcome. It would help our own economic planning here in Manitoba to hear your views on where the new jobs will come from.

The Prime Minister has assured all Premiers that any federal spending adjustments would be carried out on a basis fair to the provinces and regions of Canada, consistent with the national government's constitutional commitment to alleviating regional disparities, and in consultation with affected provinces.

In fulfilling those commitments, it is clear that your Department or the Prime Minister's office must be monitoring and tracking the regional dimensions of the policy changes announced in your Statement. In the interests of fostering co-operative federal-provincial relations, it would be helpful if you would arrange to make those reports and any assessments of their effects available to us.

Honourable Howard Pawley
Premier of Manitoba

Notes for a Statement on FEDERAL-PROVINCIAL FISCAL RELATIONS to the Twenty-Fifth Annual Premiers' Conference

Charlottetown, Prince Edward Island, August 19-22, 1984

Mr. Chairman:

I am pleased to have this opportunity to lead off consideration of Federal-Provincial Fiscal Relations at this 25th Annual Premiers' Conference. All of us at this Conference recognize the importance of those relations.

Oftentimes, however, references to fiscal relations in media reports focus on that one obvious facet—the sharing of resources among governments. Such a focus ignores the fundamental purposes which those fiscal relations are designed to achieve or help to achieve and those objectives are important to all Canadians.

As affirmed in our Constitution, they include:

- promoting equal opportunities for the well-being of Canadians;
- furthering economic development to reduce disparity of opportunities; and
- providing essential public services of reasonable quality to all Canadians.

Those are important objectives. And it is towards meeting those objectives that the fiscal relationships between the federal and provincial governments have evolved and will continue to evolve. In recognition of their importance to all Canadians in every region, our Government continues to stress the principles of co-operative federalism. **In our view an activist commitment to co-operative federalism, to governments working together in the interests of all Canadians is essential to promoting economic well-being and equality of opportunity and to the provision of needed programming and services.**

A primary vehicle in our pursuit of equal opportunity across Canada is the Equalization Program. In fact, the Constitution now includes a federal commitment to equalization payments:

> to ensure that provincial governments have sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation.

Of major importance to the provision of quality health care and post-secondary education services are the Established Programs Financing Arrangements.

Conditional and shared-cost programs such as the Canada Assistance Plan, the Economic and Regional Development Agreements, the National Training Act and others play important roles in ensuring the provision of services and the advancement of equal opportunities for all Canadians.

Tax Collection Agreements and pension arrangements are also important means available for the co-operative pursuit of national goals.

Over the longer term, our country has had a proud record of developing these mechanisms. It is my strong belief that we have, as Premiers, and working with the federal government, a firm duty to the Canadian public to ensure that these mechanisms continue to meet the objectives affirmed in the Constitution, and to enhance and improve upon them to the degree we are able.

From the Manitoba perspective, the last several years of experience with these programs has, at best, seen mixed results. We have witnessed the declining share of federal expenditures devoted to these programs. Certainly, we are far from satisfied with the pattern of unilateral changes to the arrangements and with the processes which have been used to arrive at revised arrangements.

I would like to comment briefly on the major programs and our concerns.

EQUALIZATION

In 1982, the federal government lowered the standard of equalization from the former all-province national average to a five-province "representative average" system. Under the revised formula, support to recipient provinces is insufficient to raise revenue capacity in the recipient provinces to the all-province national average.

That has long-term implications for the capacity of the current equalization formula to achieve its constitutional objective. It has a pronounced impact on the degree to which all six provinces which receive equalization are able to provide adequate public services while holding their tax rates to levels competitive with the four richest provinces.

Our Province believes that a joint federal-provincial review of the new formula should be undertaken with a view to identifying improvements for implementation in 1987.

Of more immediate concern to Manitoba is the spectre of major cutbacks in federal equalization support next year and in 1986/87.

The latest available federal forecasts suggest that Manitoba will lose $72 million or 15% of our entire equalization support in 1985/86 and that this loss will grow to $80 million in 1986/87. Federal forecasts for Quebec visualize a similar

but somewhat less precipitous drop next year. These losses are the unforeseen result of the new equalization formula imposed by Ottawa in 1982.

Our Province has therefore asked the federal government to extend the special transitional arrangement on equalization instituted in 1982. In addition to resolving the immediate problem, such an extension would permit some time to undertake a full review and assessment of the new equalization formula.

Our position on the need for extended transition is, of course, in keeping with the spirit and intention of equalization-related provisions within the Canada/Nova Scotia Oil and Gas Agreement and the understanding reached between the Leader of the Opposition and the Premier of Newfoundland concerning future equalization arrangements in that province.

ESTABLISHED PROGRAMS FINANCING — HEALTH AND POST-SECONDARY EDUCATION

As noted by our Finance Ministers in their Consensus statement of April, 1983, the federal share of total health and post-secondary education expenditures declined sharply after 1979/80 and is now so low as to call into serious question the adequacy of federal Established Programs Financing support for these vital programs.

For Manitoba, EPF support counting cash and tax has declined from 54% of health and post-secondary costs in 1979/80 to 43.2% this year.

This decline is due in large part to unilateral federal government actions including the removal of the so-called Revenue Guarantee component of EPF and the capping of the post-secondary education component. And the provisions of the Canada Health Act did not deal with urgent health care financing concerns.

Fortunately, provinces have managed to fill the gaps in federal funding, at least in the short term. However, their ability to fill those gaps over the longer term is much less certain.

In light of that uncertainty and in light of the importance we attach to quality health care and post-secondary education, our Province has stressed the need for a joint federal-provincial review of program costs and the financial arrangements.

The major erosion in federal support has rekindled interest in our Province for a return to cost-sharing under broad and flexible arrangements through which Ottawa would accept responsibility for an equal share in program costs. In some respects, it is felt that such a system could involve appreciably greater certainty for provinces as well as for hospitals and the medical professions of the degree of federal commitment and support than has been the case under Established Programs Financing.

CONDITIONAL AND SHARED-COST PROGRAMS

Manitoba's experience with conditional and shared-cost programs has been more satisfactory over the past few years. One emerging issue arises with respect to federal administrative strictures to narrow the scope of cost-sharing under the Canada Assistance Plan. On the other hand, we are quite satisfied with our Economic and Regional Development Agreement and our Manpower Training Agreement and with the way these have supplemented Manitoba's own initiatives to reduce unemployment and expand employment opportunities.

We recognize that provision of equality of employment opportunities will require major expansion in day care facilities particularly for single parents and working mothers. I would therefore like to re-affirm our Government's support for a national day care program.

INCOME TAXES

Income taxes currently account for roughly 60% of federal revenue and about 40% of provincial own-source revenue. It would therefore be difficult to underestimate their importance in budgetary planning and economic policy formulation.

Income taxes are also a shared source of revenue for federal and provincial governments. Ongoing concerns include attaining appropriate flexibility in federal administration of provincial income tax provisions and assuring reasonable harmonization of income tax provisions throughout the country.

The automatic application of federal income tax changes to each province's own income tax is especially disturbing particularly since there is no provision for consultation with or meaningful input from affected provinces prior to the announcement of federal decisions.

Statistics Canada reports that the effective corporation income tax rate in Canada has fallen from 31% in 1972, to 29% in 1976, and to 24% in 1981, the latest year for which information is available. Similarly, the effective income tax rate on higher-income Canadians, those with incomes above $50,000, has also fallen dramatically from 34.2% in 1972 to 32.3% in 1976, and to 24.8% in 1981. Over 8,000 Canadians with incomes over $50,000 paid no income tax whatsoever in 1981.

These statistics reflect the myriad of tax incentives, preferences, shelters, exemptions and other beneficial provisions included in the income tax system, many of which were added since the 1972 tax reforms.

We believe all such provisions should be re-examined and those that are found to be ineffective, inefficient or no longer necessary should be removed. The result would be a simpler and fairer income tax system and a system better equipped to meet the needs of all Canadians.

PENSIONS

Last year, Manitoba asked to have the issue of pension reform included on the agenda of the 24th Annual Premiers' Conference.

I am pleased that our discussions last year resulted in an agreement to establish a formal consultative process on pension matters chaired by the Honourable Larry Grossman, Treasurer of Ontario. I understand that consensus has been achieved with respect to the reform of a majority of the issues under consideration and that a satisfactory process for dealing with the as yet unresolved items has been suggested. I believe that consultative process is working well and hope that it will continue to facilitate efforts to achieve a substantially improved system of employment pension plans, on a uniform basis.

Although the process was established as an essentially inter-provincial exercise, Manitoba is pleased that efforts have been and will continue to be made to include representatives of the federal government at every stage of the consultative process.

I should add that our efforts to date have been focussed almost exclusively on a reform of the system of employment pension plans. Certainly, much needs to be done to make this vehicle of retirement savings more viable, equitable, and responsive to the needs of pension plan members and their spouses. However, as important as these efforts are, other programs within the overall retirement income system also require a full and thorough review. I hope that matters such as the financing of the Canada Pension Plan, changes to the benefit structure of the Canada Pension Plan, as well as pension-related tax incentives, will also be dealt with expeditiously.

CONCLUSION

In conclusion, in my mind, the number one issue on the federal-provincial agenda should be an examination of the fiscal arrangements to determine if they adequately serve the constitutionally enshrined goals of opportunity and equity.

As provinces know all too well, federal payments under the major fiscal arrangements, Equalization and EPF, declined from over 15% of federal spending in 1981/82 to under 13½% this year. So it is clear that the costs of these important initiatives are not the cause of the increase in the federal deficit.

Nevertheless, the review must address the level of federal transfer payments to provinces during a period in which it is anticipated that federal expenditures will be under close scrutiny in an attempt to reduce the federal deficit. **I believe that it would be counter-productive and unacceptable to the people of Canada, just to transfer the burden from the federal level to the provincial governments, involving with it a higher potential for damage to our cherished health, education and social service systems.**

It is not too soon to begin the quinquennial review of fiscal arrangements. In fact, an early commencement would help avoid the pitfalls of 1981/82 when consultations with provinces were delayed and deferred awaiting the Report of the Parliamentary Task Force. We should all learn from those lessons.

I ask you, the Premiers of all other provinces, to join me in calling on the federal government to join with us in a review of the full slate of fiscal arrangements, to measure them against our national goals, and to ensure that they are appropriate to the individual and collective needs of Canadians and their governments in all regions of Canada.

Finally, there is a pressing need for a thorough overhaul and reform of the income tax system to ensure that all taxpayers pay their fair share in taxes to support the important public programs and services from which we all benefit.

Appendix E:

BACKGROUND ON EQUALIZATION

Appendix E:

BACKGROUND ON EQUALIZATION

Table of Contents

Presentation on Equalization: Manitoba's Position	**E 1**
Bipartisan Letter to the Federal Finance Minister	**E 7**

Honourable Vic Schroeder
Manitoba Minister of Finance

PRESENTATION ON EQUALIZATION

January, 1985

INTRODUCTION

The Government of Manitoba expresses its appreciation to all those who have afforded it this opportunity to present its position on the need for extended transitional equalization arrangements.

Manitoba faces a year-over-year drop in equalization payments of $72 million in 1985. This is a serious revenue loss for a province of just over a million people, a loss we have been protesting for some time to successive federal governments.

The Government of Manitoba has been joined in its efforts to obtain fair treatment under the Equalization Program by a wide variety of public representatives who share a common concern about the inevitable disruptive consequences such major cuts in federal support would have on vital public programs and services in Manitoba.

The Government of Manitoba also appreciates the sincere co-operation it is receiving from the Progressive Conservative Opposition in our province. Back in 1981, as the governing party, they opposed federal attempts to weaken the equalization program and spoke out against any cuts in federal transfer support to Manitoba. Our Government has worked diligently to protect Manitoba's equalization payments, and is pleased to receive the Opposition's support for our position opposing the projected cuts which now face us.

THE 1982 EQUALIZATION FORMULA

In 1982, the former federal government unilaterally changed the basis for calculating equalization support for the six recipient provinces. Among the changes was the lowering of the benchmark or standard of equalization from the all-province national average to the so-called "representative average" which used five-provinces, British Columbia, Saskatchewan, Manitoba, Ontario and Quebec, as the standard. Ottawa also unilaterally reduced the federal commitment to financing health and post-secondary education through Established Programs Financing. There was never any general provincial agreement or consensus on those unilateral federal changes. If anything there was a general provincial consensus opposing the federal plans.

It may also be pertinent to remember that both the federal Conservatives and the New Democrats are on record as voting against the equalization proposal ultimately legislated by the Liberal majority in 1982. Unfortunately, the efforts of the federal opposition parties were unsuccessful in securing a better equalization system.

Manitoba's position continues to be as it was in 1982—equalization should be based on raising recipient provinces' ability to generate revenues to the all-province national average standard. In our view, that standard best reflects the purpose of the Equalization Program, constitutionally enshrined, to ensure:

> that provincial governments have sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation.

For Manitoba, the latest available information suggests that the current basic equalization formula based on the five-province so-called "representative average" will fall some $200 per person, over $200 million in total, short of the amounts necessary to raise Manitoba's revenues to the national average for 1985/86 before any further cuts. That is a matter that our Province will continue to pursue with the federal government. From our perspective, this is a fundamental equalization issue which must be addressed prior to the next general opportunity to improve the system in 1987.

TRANSITIONAL ARRANGEMENTS

Unfortunately, Manitoba faces a very serious immediate problem with equalization. In 1982, we were successful in persuading the federal government to provide transitional arrangements to ensure a smooth phase-in to the new formula.

Transitional arrangements were designed to ensure that no province faced an absolute year-over-year loss in equalization as a result of the lowering of the equalization standard. As the 1984 Quebec Budget stated:

> The objective of the new formula and the equalization guarantee was to ensure that no province experienced a drop in entitlements from any given year to the next throughout the five-year period of the new arrangements, unless its relative fiscal capacity approached the chosen standard.

In fact, the transition arrangements guaranteed provinces some year-over-year growth in equalization. **Transition covered the first three years of the new arrangements on the basis of federal forecasts at the time that entitlements generated by the basic formula in the fourth year, 1985/86, would exceed the levels guaranteed under the transitional arrangements.**

The 1982 federal forecasts called for Manitoba to receive $470 million in 1984/85, the last year of transition, increasing to $488 million in 1985/86, and a further $538 million in 1986/87.

THE CURRENT PROBLEM—AN UNFAIR CUT

Unfortunately, as is evident by the planned $72 million cut in Manitoba's equalization support next year, the transitional guarantees have proven inadequate to meet their objective. Instead of the $488 million next year, current federal forecasts envisage $408 million. And, instead of $50 million growth for 1986/87, Ottawa is now planning a further cut for Manitoba.

Table 1

Manitoba Equalization Support

($ millions)

	March, 1982 Federal Estimate			1984 Federal Estimate		
1981-82			**392**			**399**
	Formula	Transition	**Total**	Formula	Transition/ Floor	**Total**
1982-83	349	82	**431**	276	163	**439**
1983-84	401	56	**457**	290	177	**467**
1984-85	443	27	**470**	343*	137*	**480**
1985-86	488	—	**488**	367	41**	**408**
1986-87	538	—	**538**	400	—	**400**
5-Years	**2,219**	**165**	**2,384**	**1,676**	**518**	**2,194**

*January 1985 estimate for basic formula equalization is $335 million with an offsetting change in the transition payment to maintain the $480 million transitional guarantee. As the 1985-86 estimate has not yet been revised, the numbers have not been changed in order to maintain greater comparability between the two years' data.

**Under "floor" provisions, Manitoba's equalization support cannot drop more than 15% year-over-year—hence the $41 million in 1985-86.

The most critical point for Manitoba is that proceeding with the planned $72 million, 15%, cut in equalization support when our need for equalization as measured by the new basic formula is increasing by about 7%, would be inconsistent with the principle of equalization. As is evident by those increasing needs, we are simply not in a position to absorb or compensate for reductions in federal support.

Accordingly, our Government has endeavoured to impress upon the federal government the seriousness of the situation for Manitoba and to stress the urgency of prompt remedial action.

There are several good reasons why the new federal administration should not proceed with that $72 million planned cut in Manitoba's equalization support.

Most immediate is the impact such a cut would have on the Province. It would reduce already moderate revenue growth next year to 0.8% or $25 million. It would seriously erode the Province's ability to sustain efforts to rebuild the economy, maintain essential programs or services, avoid major tax increases and contain the deficit.

More generally, there is ample evidence to suggest that the new formula is having an unforeseen and unfair impact on Manitoba. That is evident in the chart showing the changes in equalization support for next year compared with 1981/82 if Ottawa proceeds with its cutback plans.

Table 2

Equalization Support per Family of Four 1985-86 if Federal Cut Implemented

	1981-82 ($)	1985-86 ($)	Change from 1981-82 ($)	Change from 1981-82 (%)
Manitoba	**1,554**	**1,535**	**−19**	**−1.2**
Quebec	1,547	1,756	+209	+13.5
New Brunswick	2,557	3,236	+679	+26.6
Nova Scotia	2,491	2,887	+396	+15.9
Prince Edward Island	3,492	4,335	+843	+24.1
Newfoundland	3,007	4,380	+1,373	+45.7
Five Other Provinces	1,843	2,198	+355	+19.3
National Total (All Recipient Provinces)	1,813	2,127	+314	+17.4

Based on Federal Estimates and Forecasts available October, 1984.

Note
- In 1981-82, Manitoba's entitlement at $1,554 per family of four was 86% of the average level of support to all recipient provinces.
- In 1985-86, if Ottawa proceeds with the planned cut, Manitoba's equalization support will be reduced to 72%, a fall of 14 points.

Source: Manitoba Department of Finance—December, 1984.

This chart shows that the other recipient provinces would record equalization support increases ranging from $209 per family of four in Quebec to $1,373 per family of four in Newfoundland since 1981/82. Those support increases are a sharp contrast to the absolute declines of $19 per family in support projected for Manitoba.

The unfair treatment for Manitoba is equally evident in the declining share of equalization accruing to Manitoba from over 9% during the 1977 to 1981 arrangements to 7.6% next year and 7% in 1986/87 unless transition is extended. In certain economic circumstances a declining share for a particular province might be appropriate. However, though Manitoba's aggregate economic performance has been above average, this has been accompanied with significant population growth, with the result that on a per capita basis, personal income in Manitoba has grown at the same rate as in other equalization recipient provinces. This would again suggest that Manitoba's share of equalization should not be decreasing.

Table 3

Personal Income Growth
1981 to 1985

	Aggregate Growth %	Per Capita Growth %
National Average	32.9	27.5
Manitoba	34.2	29.6
Six Equalization Provinces	33.1	29.6
Four Non-Equalization Provinces	32.8	26.2

Source: Statistics Canada and Conference Board of Canada, Manitoba Department of Finance, December, 1984.

THE MANITOBA PROPOSAL

For all these reasons, a major element of our request is an extension of the transitional arrangements to permit them to accomplish their fundamental objective.

Under our proposal, Manitoba's equalization support in 1985/86 would be based on its support in 1984/85 escalated by one-half of the growth in our Province's need for equalization support as reflected in the current formula. Under this proposal, rather than dropping to $408 million next year, Manitoba's support would rise moderately from this year's $480 million to $497 million next year. The difference between growth of $17 million and an absolute cut of $72 million would be helpful, to say the least.

The Manitoba approach would assure the Province of some increase in equalization support from the federal government commensurate with the new formula's indication that our Province's need for equalization is increasing. It would resolve the pressing immediate problem without any adverse effects on other provinces. It would assure the needed time for the careful review of the current arrangements most provinces feel is required. The extended transitional arrangement would also phase-out automatically as the objective of transition, assuring a smooth phasing-in towards the results of a new formula, is achieved.

It might be noted in this regard that the federal government is acting to provide transitional adjustments to deal with problems encountered by Newfoundland under the new formula and has committed itself to providing transitional "offset payments" to compensate Newfoundland for reductions in its equalization support occasioned by new revenues flowing from the development of off-shore resources. The previous federal administration provided similar protection for Nova Scotia.

We firmly believe the justification for appropriate "offset" arrangements or extended transition is at least equally evident in Manitoba's case.

We have often noted the urgency for resolution. We have delayed decisions on several issues and made others conditional on the favourable outcome of the federal review. The impact of the uncertainty has its own consequences. We continue to stress the urgency for a fair resolution of our equalization request.

Background information on Equalization which supported this Presentation is available from **The Distribution Office, Manitoba Department of Finance, Winnipeg, Manitoba, R3C 0V8.**

Honourable Vic Schroeder
Manitoba Minister of Finance
and A. Brian Ransom
Finance Critic, Official Opposition, Manitoba Legislature

JOINT LETTER ON EQUALIZATION
to Honourable Michael Wilson
Minister of Finance, Government of Canada

MANITOBA

LEGISLATIVE ASSEMBLY

January 24, 1985

Honourable Michael Wilson
Minister of Finance
515-S, Centre Block
House of Commons
OTTAWA, Ontario
K1A 0A6

Dear Mr. Minister:

We wish at the outset to express our thanks to Prime Minister Mulroney and you for opening the door to possible changes in the fiscal arrangements which if left as originally structured by the previous government will impact heavily and unfairly upon Manitoba's ability to deliver services.

We are taking this opportunity to put forward Manitoba's case in the same non-partisan manner as that of the federal Progressive Conservatives and New Democrats in 1982 and we sincerely hope that the same reasoning which prevailed at that time will once again protect Manitoba's legitimate interests.

In March of 1982 the new fiscal arrangement proposals of the Government of Canada threatened to cut $43 million from equalization payments to Manitoba in the first year of the five year arrangement.

The Manitoba Government argued that the new formula would impact most severely on Manitoba and that it should not be forced to accept an actual reduction in equalization. This argument was fully supported by the Honourable Jake Epp when he spoke in Parliament on the subject of fiscal arrangements and when he moved an amendment seconded in non-partisan fashion by Bill Blaikie, New Democratic M.P. for Birds Hill.

The Government of Canada also accepted the argument that Manitoba should not be expected to accept a reduction in payments and consequently introduced a transitional system designed to ensure that Manitoba would get increasing payments, albeit at a slower rate than for other provinces, until such time as the basic entitlement under the new formula caught up to payments under the transitional arrangement. This was expected to happen in 1985/86.

During the first three years of the new fiscal arrangement five provinces benefited from the transitional provisions but with the termination of these payments in 1985/86 Manitoba will lose $72 million and will drop back to below the 1981/82 per capita level despite growing need for equalization as measured by growth in entitlements under the new formula. During the same period all other recipient provinces will get increases ranging from 13.5% to 45.7% above 1981/82 per capita levels.

As in 1982, Manitoba is faced with a reduction in equalization but this time the cut is $72 million rather than $43 million. We believe that the common understanding that resulted in transitional arrangements in 1982 must once again result in action to prevent the $72 million cut and indeed provide some growth as promised by the Honourable Allan MacEachen in 1981 and as was projected in March of 1982.

Our proposal is that the payment for 1985/86 be equal to the 1984/85 payment increased by one-half the percentage growth in entitlement under the new formula with a cumulative increase for 1986/87 based on the same formula. According to present estimates this formula would yield $497 million to Manitoba in 1985/86 and $519 million in 1986/87.

We trust that you will find this proposal to be fair and reasonable.

Sincerely,

Vic Schroeder
Minister of Finance

A. Brian Ransom
Finance Critic
Official Opposition